

**FULL COMMITTEE HEARING ON
THE ROLE OF SMALL BUSINESSES
IN STIMULATING THE ECONOMY**

**COMMITTEE ON SMALL BUSINESS
UNITED STATES HOUSE OF
REPRESENTATIVES
ONE HUNDRED TENTH CONGRESS**

SECOND SESSION

APRIL 24, 2008

Serial Number 110-88

Printed for the use of the Committee on Small Business



Available via the World Wide Web: <http://www.access.gpo.gov/congress/house>

U.S. GOVERNMENT PRINTING OFFICE

40-859 PDF

WASHINGTON : 2008

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2104 Mail: Stop IDCC, Washington, DC 20402-0001

HOUSE COMMITTEE ON SMALL BUSINESS

NYDIA M. VELÁZQUEZ, New York, *Chairwoman*

HEATH SHULER, North Carolina
CHARLIE GONZALEZ, Texas
RICK LARSEN, Washington
RAUL GRIJALVA, Arizona
MICHAEL MICHAUD, Maine
MELISSA BEAN, Illinois
HENRY CUELLAR, Texas
DAN LIPINSKI, Illinois
GWEN MOORE, Wisconsin
JASON ALTMIRE, Pennsylvania
BRUCE BRALEY, Iowa
YVETTE CLARKE, New York
BRAD ELLSWORTH, Indiana
HANK JOHNSON, Georgia
JOE SESTAK, Pennsylvania
BRIAN HIGGINS, New York
MAZIE HIRONO, Hawaii

STEVE CHABOT, Ohio, *Ranking Member*
ROSCOE BARTLETT, Maryland
SAM GRAVES, Missouri
TODD AKIN, Missouri
BILL SHUSTER, Pennsylvania
MARILYN MUSGRAVE, Colorado
STEVE KING, Iowa
JEFF FORTENBERRY, Nebraska
LYNN WESTMORELAND, Georgia
LOUIE GOHMERT, Texas
DAVID DAVIS, Tennessee
MARY FALLIN, Oklahoma
VERN BUCHANAN, Florida

MICHAEL DAY, *Majority Staff Director*
ADAM MINEHARDT, *Deputy Staff Director*
TIM SLATTERY, *Chief Counsel*
KEVIN FITZPATRICK, *Minority Staff Director*

STANDING SUBCOMMITTEES

Subcommittee on Finance and Tax

MELISSA BEAN, Illinois, *Chairwoman*

RAUL GRIJALVA, Arizona
MICHAEL MICHAUD, Maine
BRAD ELLSWORTH, Indiana
HANK JOHNSON, Georgia
JOE SESTAK, Pennsylvania

VERN BUCHANAN, Florida, *Ranking Member*
BILL SHUSTER, Pennsylvania
STEVE KING, Iowa

Subcommittee on Contracting and Technology

BRUCE BRALEY, IOWA, *Chairman*

HENRY CUELLAR, Texas
GWEN MOORE, Wisconsin
YVETTE CLARKE, New York
JOE SESTAK, Pennsylvania

DAVID DAVIS, Tennessee, *Ranking Member*
ROSCOE BARTLETT, Maryland
SAM GRAVES, Missouri
TODD AKIN, Missouri
MARY FALLIN, Oklahoma

Subcommittee on Regulations, Health Care and Trade

CHARLES GONZÁLEZ, Texas, *Chairman*

RICK LARSEN, Washington
DAN LIPINSKI, Illinois
MELISSA BEAN, Illinois
GWEN MOORE, Wisconsin
JASON ALTMIRE, Pennsylvania
JOE SESTAK, Pennsylvania

LYNN WESTMORELAND, Georgia, *Ranking*
BILL SHUSTER, Pennsylvania
STEVE KING, Iowa
MARILYN MUSGRAVE, Colorado
MARY FALLIN, Oklahoma
VERN BUCHANAN, Florida

Subcommittee on Urban and Rural Entrepreneurship

HEATH SHULER, North Carolina, *Chairman*

RICK LARSEN, Washington
MICHAEL MICHAUD, Maine
GWEN MOORE, Wisconsin
YVETTE CLARKE, New York
BRAD ELLSWORTH, Indiana
HANK JOHNSON, Georgia

JEFF FORTENBERRY, Nebraska, *Ranking*
ROSCOE BARTLETT, Maryland
MARILYN MUSGRAVE, Colorado
DAVID DAVIS, Tennessee

Subcommittee on Investigations and Oversight

JASON ALTMIRE, PENNSYLVANIA, *Chairman*

CHARLIE GONZÁLEZ, Texas
RAUL GRIJALVA, Arizona

MARY FALLIN, Oklahoma, *Ranking*
LYNN WESTMORELAND, Georgia

CONTENTS

OPENING STATEMENTS

	Page
Velázquez, Hon. Nydia M.	1
Chabot, Hon. Steve	2

WITNESSES

PANEL I:

Hodgson, Mr. Michael G., President, ConSol, Stockton, CA, On behalf of the National Association of Homebuilders	4
Misenier, Mr. Paul, Vice President, Global Public Policy, Amazon.com	6
Fischer, Mr. David, Vice President, Online Sales & Operations, Google Inc.	8
Ceru, Dr. Dennis, Adjunct Lecturer, Entrepreneurship, Babson College, Babson Park, MA	10
Steiger, Mr. Marc, CEO, DLP Technologies, Inc., Cincinnati, OH, On behalf of CompTIA	12

APPENDIX

Prepared Statements:

Velázquez, Hon. Nydia M.	35
Chabot, Hon. Steve	39
Altmire, Hon. Jason	38
Clarke, Hon. Yvette	39
Hodgson, Mr. Michael G., President, ConSol, Stockton, CA, On behalf of the National Association of Homebuilders	40
Misenier, Mr. Paul, Vice President, Global Public Policy, Amazon.com	50
Fischer, Mr. David, Vice President, Online Sales & Operations, Google Inc.	60
Ceru, Dr. Dennis, Adjunct Lecturer, Entrepreneurship, Babson College, Babson Park, MA	66
Steiger, Mr. Marc, CEO, DLP Technologies, Inc., Cincinnati, OH, On behalf of CompTIA	74

FULL COMMITTEE HEARING ON THE ROLE OF SMALL BUSINESSES IN STIMULATING THE ECONOMY

Thursday, April 24, 2008

**U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
*Washington, DC.***

The Committee met, pursuant to call, at 10:00 a.m., in Room 1539 Longworth House Office Building, Hon. Nydia Velázquez [chairman of the Committee] presiding.

Present: Representatives Velázquez, González, Cuellar, Altmire, Clarke, Ellsworth, Sestak, Hirono, Chabot, King, Davis, Fallin, and Buchanan.

OPENING STATEMENT OF CHAIRWOMAN VELÁZQUEZ

Chairwoman VELÁZQUEZ. Good morning. I now call this hearing to order on The Role of Small Businesses in Stimulating the Economy. This forum will take place during the 45th anniversary of National Small Business Week. The occasion reminds us of the important role that entrepreneurs play employing half of the private sector workforce, and creating almost 80 percent of all new jobs.

Small businesses are also the country's primary source of innovation and drivers of advances in virtually every industry. It is not an exaggeration that small firms are the life blood of the American economy. That is important to keep in mind given the challenges we are facing today.

The sub-prime mortgage crisis continues, and oil prices are climbing to record highs. Unemployment is rising, and our place as leaders of the global marketplace appears in peril, but small businesses can help us get things back on track if they have the right tools.

That is why today's hearing is so timely. It will explore how to best help entrepreneurs continue their role in stimulating the American economy. We will do so with an eye towards addressing current economic realities, and looking for solutions that lead to sustained economic growth.

Joining us are witnesses from an array of cutting-edge industries. Their insights into the challenges facing the economy will add to our discussion of these issues. They will also help explore how current challenges can be overcome through responsible policy and strategic partnerships that are rooted in the work of American small firms.

As a nation, we can find a path from this economic downturn to recovery and growth. Small businesses have already proven that they are very good at leading the way. In fact, throughout history, entrepreneurial activity has been a principal reason our economy has regained its strength.

Many businesses begin during economic slow-downs, creating jobs, products, and services. Take the last major recession as an example. During the early 1990s, self-employment, a core piece of the country's small business sector, was at an all time high, 7.7 percent. Moreover, some 25 percent of downsized managers over the age of 40 chose to start their own companies during this time. Most of the firms endured as successful, modern enterprises, others fared even better, and have given birth to companies, such as those on today's panel.

Finally, it is no secret that during the late 20th century, technology was a key force in jump-starting and expanding economic activity. It remains so today. That was evidenced in the SBIR/STTR Re-authorization we approved in the House yesterday, with overwhelming bipartisan support.

It is also clear in the development and construction of energy-efficient homes, as well as the marketing, tracking, and shipment of small business products around the globe. Small businesses are leveraging the power of high tech tools.

These entrepreneurs are harnessing real time communication, market mapping software, and on-demand inventory systems. They are extending the reach of the Internet, and bridging the path to platform independence. With each step, they revitalize our economy, and build a market-leading America of tomorrow.

This Committee has always supported such efforts. At a time when small businesses and our nation as a whole face daunting obstacles, we will redouble our work to advance policies that will help entrepreneurs thrive in the markets of the 21st century.

I thank each of the witnesses for joining us today in celebrating Small Business Week, and in discussing these important issues. I'm looking forward to your testimony.

With that, I yield to Ranking Member Chabot for his opening statement.

OPENING STATEMENT OF MR. CHABOT

Mr. CHABOT. Madam Chairwoman, thank you for holding this hearing examining the role of small businesses in stimulating our nation's economy. I'd also like to thank our impressive panel of witnesses here this morning. I'm looking forward to hearing your testimony, and a special welcome to Marc Steiger, who's from Cincinnati, Ohio, one of the distinguished members of the panel here. And I happen to represent Cincinnati, so we're particularly pleased to have him here.

It's fitting that we are holding this hearing during Small Business Week, as we recognize the contributions of America's small business owners and workers. These are the men and women who use their entrepreneurial talents to help improve our lives, sustain our economy, and expand opportunities for all of us, all Americans.

There is no doubt that small businesses drive America's economy, creating about 70 percent of the new jobs, and accounting for more

than half of our private sector employees. These jobs are important, and in a time of economic uncertainty, they become even more critical to moving our country forward.

Small businesses are playing an increasingly important role in the technological sector. Statistics show that they are on the cutting edge of research, hiring 40 percent of all technology employees, and generating 13 times more patents per employee than large firms.

Small firms also lead our nation in trade. NAFTA and free trade agreements, such as those with Chile, Singapore, and Peru boost prosperity, strengthen our ties with other nations, and create and support new jobs for America's workers.

Almost one-third of all U.S. exports are generated by small business, and 97 percent of all U.S. exporters are small companies.

Small businesses also create opportunities for every American. The Small Business Administration reports the number of women, minority, and veteran-owned businesses is growing rapidly, and comprising an increasing percentage of our economy.

These successes are impressive, but we must do all that we can to give small firms the tools to prosper. They need access to capital, counseling, and programs to help them build and expand their businesses.

By supporting policies to keep taxes low, promote free trade, allow small businesses to pool together to purchase health insurance, and reduce frivolous lawsuits, we can help small companies to compete.

Small businesses exemplify the American values of hard work, ingenuity, and achievement. And during Small Business Week, we honor small companies for their vital contributions to their communities, and to our nation.

I also want to mention that I am the Ranking Member of the Anti-Trust Task Force, and so will have to leave here shortly, and will be ably substituted by either Steve King, or Lynn Westmoreland, or one of the other distinguished members of the panel who will fill in until I can get back. We're discussing an issue of some relevance to our community, in particular. It's the Delta Northwest merger, and Delta, we happen to be the second-largest hub. And the Chairman of the committee, Mr. Conyers is also very interested in that particular topic, as well. I try to be at these meetings from beginning to end as often as possible, but this is one I have to actually go over there.

And one other detail I wanted to do was to introduce a young lady here who is just—she's a great young lady, and she happens to be the daughter of my Staff Director, Kevin Fitzpatrick. And her name is Elizabeth. She also happens to my goddaughter. Elizabeth, you want to stand up there so people can see you. She's also a champion swimmer, by the way, too.

(Applause.)

Mr. CHABOT. I know she would love to sit through all the testimony, and all the questioning, but I think she may have some other more interesting things to do at some point this morning, so she may move; not that this is not terribly interesting, but to a fourth grader, there's probably bigger and better things to see in Washington while she's here.

Chairwoman VELÁZQUEZ. But did you hear what she said to me when I said hello to her?

Mr. CHABOT. No, I didn't.

Chairwoman VELÁZQUEZ. That when she grows up, she wants to be like me. She wants to be a Democrat.

(Laughter.)

Mr. CHABOT. Elizabeth, did you say that? I think not, but in any event, thank you, again, Madam Chairwoman for holding this hearing this morning, despite that comment. We look forward to hearing from all the witnesses, and I yield back.

Chairwoman VELÁZQUEZ. Thank you. And I just want to welcome all of you, friends, people that are here, and to say please excuse this room. This is not our regular Small Business Committee room. We have a better room than this one, but it is being renovated.

With that, it's my pleasure to welcome Mr. Michael G. Hodgson. He is President of ConSol, a green energy consulting firm based in Stockton, California. He will be testifying on behalf of the National Association of Homebuilders. The Homebuilders is a federation of more than 800 state and local associations. About one-third of its 235,000 members are homebuilders or remodelers. The remainder of its membership works in closely-related fields, including mortgage finance, and building products and services. Welcome. You have five minutes. The timer is there. You're going to see the green light. It means you start. The yellow one says that it's about to finish. Welcome.

STATEMENT OF MR. MICHAEL G. HODGSON, PRESIDENT, CONSOL, ON BEHALF OF THE NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. HODGSON. Thank you. Chairwoman Velázquez, Ranking Member Chabot, and Members of the Committee, my name is Mike Hodgson, and I'm President and Founder of ConSol, a residential energy consulting firm in Stockton, California, and Chairman of the Energy Efficiency Tax Credit Working Group of the National Association of Homebuilders.

Since 1981, I have worked with homebuilders to improve the production of energy-efficient new homes. ConSol is consistently recognized as the builder's energy advocate at the local, state, and national level, dedicated to assisting homebuilders achieve the highest level of quality construction, and energy performance. My business is closely linked to the health of the housing industry and its technological future in energy-efficiency, and sustainability.

Thank you for the opportunity to testify today about the urgent need to restore the health of the housing industry, and small businesses like mine, as well as to discuss the importance of incentives for producing more energy-efficient housing.

Currently, the housing market is in the midst of a historic downturn, characterized by falling home prices, declining home sales, constrained mortgage credit, and a painful contraction in the residential construction sector.

In California, my company's largest market, new construction permits have fallen 46 percent from their 2005 levels, and researchers predict they'll fall an additional 24 percent in 2008.

Small businesses like mine that depend on the health of the housing industry have reacted quickly to keep solvent. For example, ConSol's revenue is down 30 percent in the last two years. I've been forced to lay-off 31 employees, 30 percent of my company's workforce. I know many other small businesses in our industry has had to take similar steps.

NAHB has made several recommendations for stabilizing the housing industry in the immediate term, such as creating a temporary home buyer tax credit, among others. My written testimony provides specific details on how this, and other proposals can help the housing market, and the overall economy recover from the current downturn.

With respect to energy policy in the housing industry in the long-term, it is important to improve the promotion of residential energy efficiency. Section 45L of the Tax Code, for example, contains the new energy-efficient home credit, which is a key market incentive to shift builders toward significant energy savings in new home construction. The program, which expires at the end of this year, provides a \$2,000 tax credit to a homebuilder who constructs a qualified new energy-efficient home certified to achieve a 50 percent reduction in energy use.

This credit is particularly beneficial to small homebuilders who often have the most flexibility to react to the marketplace preferences, such as increased energy efficiency, or green home-building. However, homebuilders also report, and I know this firsthand, that the increased construction costs required to meet the requirements of the tax credit dramatically exceed \$2,000.

The Senate recently passed a two-year extension of this credit, along with its housing stimulus legislation, but the House has not acted on it. It is crucial that leaders in both Houses of Congress work together to not only renew the credit as soon as possible, or make it permanent, but also to increase the dollar amount.

Furthermore, many businesses in the construction sector experience losses, and, therefore, are unable to fully utilize this credit. Mechanisms need to be developed by which the credit can be transferred from a builder to investors, or other stakeholders, similar to the model in the low-income housing tax credit.

I would like to quickly highlight the work done by NAHB to promote green building. The first National Consensus Standard on residential green building in the United States will be soon be approved by the American National Standards Institute, ANSI. As a member of the Consensus Committee that helped developed this benchmark, I can personally attest to the rigorous process that produced a viable and affordable alternative to other private rating tools.

NAHB also established a National Green Building program that embodies a consumer education campaign highlighting the benefits of green building, and sustainability in housing design.

Together, the National Green Building Standard, and the National Green Building program will help homebuilders continue to push the envelope in green building construction. This, in turn, will create new market opportunities for small businesses like mine that provide residential energy-efficiency services.

NAHB appreciates the efforts by Congress to address the housing crisis, support small business, and promote energy efficiency and green building. Thank you for the opportunity to testify today.

[The prepared statement of Mr. Hodgson may be found in the Appendix on page 40.]

Chairwoman VELÁZQUEZ. Thank you, sir. Our next witness is Mr. Paul Misener. He is Amazon.com's Vice President for Global Public Policy. He is responsible for formulating and representing the company's policy positions worldwide.

Amazon was one of the first businesses to sell products over the Internet. Today, it is one of the world's largest and most successful retailers. The company was founded in 1994 by Jeff Bezos, and is headquartered in Seattle, Washington. Welcome.

**STATEMENT OF MR. PAUL MISENER, VICE PRESIDENT,
GLOBAL PUBLIC POLICY, AMAZON.COM**

Mr. MISENER. Good morning, Chairwoman Velázquez, and Ranking Member Chabot, and Members of the Committee. Thank you very much for inviting me to talk about this very important topic. And I am delighted to respond to your specific request to know how Amazon.com drives the growth of small firms, and about the effect that small companies have on the economy.

Madam Chairwoman, I would like to offer you and your Committee three essential observations this morning. First, the online economy has evolved dramatically since its inception in the early 1990s, bringing unforeseen benefits to small businesses. Second, these benefits arise not only from the new markets that can be reached online, but also from the myriad retailing services now available online to small businesses from Amazon.com, and others. And third, the demographics of today's online economy can be surprising, particularly with respect to the share of the online economy held by small businesses.

With these observations in view, we may safely conclude that the online marketplace is a very important avenue through which small businesses may help stimulate the overall economy.

Madam Chairwoman, the Internet is a great enabler of small business. In its early days, the online economy was a haven for innovative, technically savvy small businesses, and today it has evolved to become a crucial sales channel for all kinds of small businesses, not just those with technical expertise.

Several different eCommerce business models now co-exist and vigorously compete on the web. One model is platform retail, whereby large companies, such as Amazon.com, eBay, and others, provide eCommerce services to other companies, both large and small. Through Amazon.com's platform, over 1.3 million sellers, most of them small businesses and individuals, now have easy access to over 79 million active consumer accounts worldwide.

You've asked me for an indication of how my company drives the growth of small firms. Well, simply put, Amazon.com strives to provide our small business seller customers a wide variety of retail tools so they can concentrate on the areas of their business they know and like best. For example, with product ads by Amazon, small businesses can easily and efficiently advertise on Ama-

zon.com the specific products available on their own web sites. For small businesses that don't have their own web sites, we offer several types of services, like selling on Amazon, which allows small businesses to post their inventory on our web site without any individual item listing fees.

Through WebStore by Amazon Service, we even create and run complete eCommerce web sites for small businesses. And whether or not a small business has a web site, we can provide the global reach of our physical distribution network through our fulfillment by Amazon Service.

As for small businesses with media products, we make additional services available. One simply way creators and small publishers can use our retail platform is through our Amazon Advantage program, in which they need to print or manufacture only a few books or disks. Small publishers then can offer these few copies to the entire Amazon customer base of more than 79 million active customers.

Digital delivery, of course, is another low-investment way to get media products to consumers. We have a rapidly growing digital music and video business that allow individual creators and small publishers to sell their audio and video works on line, without every reducing them to physical form.

Moreover, as you may have heard, we have also introduced the Amazon Kindle, which is this little device here. It's a portable reading device that wirelessly can download books, blogs, newspapers and magazines. This way authors and small publishers easily can attract an audience and distribute their works without the up-front investments in printing and physical distribution that often act as significant barriers to entry. On my own Kindle, I have several books from individual authors and publishers who don't need to have any physical books in print.

The demographics of today's online economy can be surprising. Indeed, the share of the online economy held by small business is surprisingly large, because it is systematically under-counted in surveys, including by the U.S. Census.

The upshot of this significant under-counting of sales by small business is that the proportion of eCommerce by small business is greatly underestimated. The sales by sellers with annual revenues on the order of \$100,000 likely could account for as much as a quarter of all consumer eCommerce in the U.S. Obviously, the surprisingly high portion of eCommerce conducted by small businesses means that such businesses can have a greater effect on the online economy than may be generally assumed.

In conclusion, Madam Chairwoman, the Internet is a great enabler of small business. The online economy has evolved dramatically since its inception in the early 1990s, bringing unforeseen benefits to small businesses. These benefits arise not only from the new markets that can be reached online, but also from the myriad of services now available to small businesses by Amazon, and other providers.

Lastly, the demographics of today's online economy can be surprising, particularly with respect to the large share of the online economy held by small businesses. With these observations in view, we may safely conclude that the online marketplace is a very im-

portant avenue through which small businesses may help stimulate the economy.

Thank you again for inviting me to testify, and I look forward to your questions.

[The prepared statement of Mr. Misener may be found in the Appendix on page 50.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Misener.

Our next witness is Mr. David Fischer. He's the President of Online Sales and Operations for Google. He is responsible for the company's Internet sales channel, and operation of its advertising program in North America.

Google, Inc. is an American public corporation that earns revenue from online and mobile advertising. The company is headquartered in Mountain View, California. Welcome.

**STATEMENT OF MR. DAVID FISCHER, VICE PRESIDENT,
ONLINE SALES & OPERATIONS, GOOGLE, INC.**

Mr. FISCHER. Thank you. Chairwoman Velázquez, Ranking Member Chabot, and Members of the Committee, it's a great pleasure to be here to testify about American small businesses, which are one of the most important and dynamic facets of our economy.

Google is committed to helping small businesses prosper on the Internet. Indeed, much of Google's success is predicated on the success of our small business customers and partners, and we place tremendous value on this relationship with these entrepreneurs. For many of them, their success is fundamentally linked to the continuing growth of the Internet.

Today, hundreds of thousands of businesses are using Google advertising to reach customers, and hundreds of thousands of web site owners are generating revenue by placing Google ads on their pages. A significant majority of these partners are small businesses, and our tools are helping them compete, and succeed in the global marketplace.

In my testimony this morning, I'll first explain how online advertising enables small businesses to connect efficiently and cost-effectively with new customers. Second, I'll explore how advertising partnerships provide new sources of revenue for web site owners. And last, I'll offer some comments on future trends in the Internet economy, and important implications for policy makers.

Online advertising enables small businesses to affordably and efficiently find their customers, whether it's a local plumber reaching a new customer down the block, or a niche antique dealer connecting with a collector overseas.

Small businesses are using Google's advertising program, known as AdWords, as a sort of matchmaking service for new customers. Through a simple online tool, businesses create short text ads for their products that appear when a Google user conducts a search. For example, a Google search for the word flowers will show you both relevant search results, as well as ads from local and national florists.

We found that our advertising system gives small businesses a level playing field to compete efficiently with much larger companies. Any business can get started with just \$5. Here's one exam-

ple. Bulb America, a Brooklyn, New York-based lighting and fixture company got started in 1998 with just two employees. It's grown to over 25 employees, with \$6.5 million in total sales in 2007. Today, the company attributes about 65 percent of those sales, or over \$4 million last year, to Google advertising.

Chairwoman Velázquez, Bulb America is just one of thousands of businesses in your district, and across the U.S. that are finding new sources of revenue through our advertising program. But Google advertising isn't just helping small businesses find customers more efficiently, it's also helping to find a whole new breed of online entrepreneurs.

In 2003, Google created a program called AdSense, which pays web site owners to place our ads on their pages. Every time someone clicks on one of those ads, the advertiser pays Google, and we share a majority of that revenue with the web site owner.

Our business model enables entrepreneurs, educators, bloggers, and others to generate revenue by sharing their expertise and opinions with the world. In many cases, these individuals are able to dedicate themselves full-time to their web sites because of the support they receive from our advertising programs.

In 2007, for example, Google paid out \$4.5 billion to our partners, thousands of whom are small businesses and entrepreneurs. Chairwoman Velázquez, in the 12th District of New York alone, we paid out more than \$51 million to more than 6,000 AdSense partners last year.

Askthebuilder.com is just one example of a small business success story. Based in Cincinnati, Ohio, Tim Carter delivers practical tips for handymen across the country. In April of 2004, Carter added AdSense to his web site, and immediately experienced a jump in revenue of 400 percent. Today, Tim Carter receives a monthly check from Google that averages about \$42,000, and he is just one of 2,000 businesses in the First District of Ohio with whom we shared a total of \$1.6 million last year.

Thousands of small businesses are using online advertising to create new economic opportunities and flexibility. We at Google are very pleased to help support this proliferation of economic activity, free speech, and entrepreneurial spirit.

I'd like to conclude with a few thoughts about the future trends we see emerging in the Internet marketplace, and how they might impact this Committee's work.

First, the vast majority of our advertising customers and partners hosting our ads are not Fortune 500 companies, but small firms, creating niche products for specific audiences. The web allows users with individual tastes to find these niche products and services more efficiently, and the economic potential of this content is driving some of the most innovative online businesses today.

We believe that the continued growth of small businesses is dependent on fostering activity among the millions of individuals users and companies who make up the vibrant online community. As the Committee continues its important work as a champion of small business, I would encourage you to constantly consider how any new laws and regulations will affect these online entrepreneurs.

Finally, we just continue to preserve the Internet as an open platform. Just a decade ago, Google's founders were graduate students at Stanford University, when they launched their small business, a new approach to searching the Internet. A free and competitive online network and open standards enabled the success of Google's search engine. Preserving this openness online is critical to insuring the success of a new generation of small businesses.

As policy makers interested in promoting small business, I urge you to consider the openness of the Internet as a guiding principle in your legislative work, and as a critical component to insuring the continued success of American small businesses.

We look forward to continuing our partnership with these businesses, and to answering any questions you might have about our efforts. Thank you.

[The prepared statement of Mr. Fischer may be found in the Appendix on page 60.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Fischer.

Our next witness is Dr. Dennis Ceru. He's an Adjunct Professor at Babson College, where he teaches MBA courses in Entrepreneurship and Business Strategy. He has more than 25 years of experience delivering successful business and technology solutions through leadership and management positions in the fields of technology, financial services, and healthcare.

He's also the President and CEO of Strategic Management Associates, a company dedicated to providing business leaders with the tools necessary to expand and manage growth. Welcome.

**STATEMENT OF MR. DENNIS CERU, ADJUNCT LECTURER,
ENTREPRENEURSHIP, BABSON COLLEGE**

Mr. CERU. Thank you. Chairwoman Velázquez, Members of the Committee, thank you for this opportunity to talk with you this morning about the role of small business in stimulating the economy.

Again, my name is Dennis Ceru, and I represent Babson College, as well as the Global Entrepreneurship Monitor. GEM is a joint venture of Babson College and the London School of Business, and it is the largest ongoing study of entrepreneurial dynamics in the world. We started with 10 participating countries, the project now in its eighth year of operations, has expanded to include 42 countries in 2006, and now 44 countries in 2008.

Some of the information that I will share with you today is derived from this research, as well as the research of my colleagues at Babson College, and peppered with my own experience in owning, managing, and advising small and medium-sized businesses.

First off, the main characteristics of entrepreneurial activity in the United States is significant. The total entrepreneurial activity index in 2007 is at 9.6 percent. This counts both nascent entrepreneurs, as well as new business owners. The overall business owners index, the count of early-stage plus established businesses is 14.1 percent.

Interestingly enough, there are gender differences in this, with about 62 percent of the early-stage entrepreneurs in the U.S. being men, and 37-1/2 being women. Early-stage entrepreneurs in the

U.S. are very confident people. They believe their business has high potential, with 22 percent of them expecting to create more than 10 jobs, and 50 percent growth in the next five years, compared to only 7.1 percent growth projected by current business owners. To us, this signifies opportunity, enthusiasm, and a positive outlook.

Over 49 percent of early-stage companies plan to offer products that are new to customers, contrasting with only 31 percent from established business owners. More than 37 percent of early-stage companies will use the latest or newest one to five-year technology in their business, as compared to only 10 percent of established businesses. What this says to us is that entrepreneurs are innovative. They are innovative in their use of technology, as well as their creation of new business models, new services, and new technologies.

They're also young. Most are 34 years of age or younger, 41.6 percent, and about 62 percent of these early-stage entrepreneurs have some degree of a college education. This is a dynamic, young, educated workforce.

In the United States, most of this activity is centered around the consumer-oriented services sector, about 42 percent, followed by the business services sector, closely followed by transforming and very little in extractive services. In other countries, of course, we see very different combinations of these sectors.

Experts in entrepreneurship overwhelmingly believe that there is sufficient equity funding, debt funding, and private funding for their new and growing firms. Government support for entrepreneurship is believed to be stronger at the local level, than at the national level, with 55 percent claiming support from local sources, and only 45 percent claiming support at the national level. The findings from this indicate that these entrepreneurs are consumer focused. They do believe they have the capital to start their businesses, and they still seek most of their support at the local, rather than the national level.

In terms of current issues, the slump in the housing markets is causing distress not only in the homebuilding industries, but the overall financial markets, as well, and many small businesses and nascent entrepreneurs will be affected if this slump continues for a prolonged period of time.

The Federal Reserve has been responding with significant interest rate cuts, which have provided some stimulus. Venture capital investment has continued to grow in this country, with about a 14 percent year-to-year increase in the annual amount invested in portfolio companies in 2006, and an 11 percent increase in the first six months of 2007.

Some of the new tax legislation proposed before Congress could potentially change the treatment of venture capitalist's profits from capital gains to ordinary income; thus, affecting early-stage companies that represent not only the highest investment risk, but as both the Committee and some of my colleagues have stated, also create the most jobs and opportunities for the American economy.

The finding from this is that there has been a negative ripple or trickle-down effect from the overall economic crisis. However, as has been mentioned by Chairwoman Velázquez and Ranking Mem-

ber Chabot, that the times of economic distress are often the times when new businesses start, and they are times when entrepreneurs are able to seek opportunities that established businesses, perhaps, are a little bit less comfortable taking.

So, in conclusion, thank you very much for inviting me here today. I hope that my testimony has underscored some of the important facts and statistics behind entrepreneurship in the United States, and I welcome your questions at the conclusion of this testimony.

[The prepared statement of Dr. Ceru may be found in the Appendix on page 66.]

Chairwoman VELÁZQUEZ. Thank you, Dr. Ceru.

Our next witness is Mr. Marc Steiger, and he is CEO for DLP Technologies, Inc. in Cincinnati, Ohio. And I understand you are a constituent of Mr. Chabot.

He will be testifying on behalf of the Computer and Technology Industry Association. CompTIA membership extends into more than 100 countries, and includes companies at the forefront of innovation.

The association has expertise in a broad range of issues areas, including convergence technology, eCommerce, IT training, software services, certification, public policy, and workforce development. Welcome.

STATEMENT OF MR. MARC STEIGER, CEO, DLP TECHNOLOGIES, INC. ON BEHALF OF CompTIA

Mr. STEIGER. Thank you. Good morning, Chairwoman Velázquez, Ranking Member Chabot, and distinguished members of the Committee.

My name is Marc Steiger. I'm appearing today as a member of Computing Technology Industry Association, CompTIA, which represents over 10,000 member companies. I also am appearing as the owner of DLP Technologies, a small business that is working to do its part to fuel the American economy.

I am a member of CompTIA, and I am a VAR. The typical small business does not have an IT department, but relies upon the services of an important segment of the computer industry referred to as value-added resellers, or VARs. VARs are small system integrators that design, install, and maintain computer systems and networks for other small businesses. Over one-third of the computer hardware sold in the United States today is sold by VARs.

First, Madam Chair, I want you to know that the SBA Loan program has been a great benefit to my company. We just purchased a commercial condominium for our office space with SBA guaranteed funds, and some of our emergency working capital is also backed by the SBA. I want to thank this Committee for your support of the SBA Loan program.

DLP Technologies has worked with small and medium-sized businesses in the Cincinnati area for over 25 years. We've become their IT support department, assist their computer users, manage their computer equipment, and help their businesses become more efficient. We have about 100 small business clients in many diverse industries, from law firms, to printers, from small manufacturers,

to nursing homes, from chains of opticians, to chains of chili parlors.

DLP supports the American economy as the employer of 11 employees with a payroll of \$675,000. We support our employees by providing a full program of benefits, and we support our community by paying a variety of taxes. However, our major contribution to the economy is through the impact we have on our clients, and I'd like to give two examples.

Last year, we did a technology project for The Counseling Source, a provider of mental health services for the elderly. Because of this project, The Counseling Source is now able to serve 300 clients up from 200 before the project. They have increased their clinical staff 50 percent, while decreasing their administrative staff from 10 to 4. This is a prime example of how we assist our clients to increase productivity.

Another example is a project we did for Thoma and Sutton Eye Care Professionals, a 22-store optical chain based in Cincinnati. By upgrading and supporting their technology platform, we were able to improve their productivity, and allow an 8 percent increase in sales, with no increase in personnel. We also supported their increase in size by two stores by allowing their team to concentrate on more important matters, while we took the responsibility for technology issues. Their CEO asked me to emphasize to you today that his company would not have been able to make this investment without the Section 179 tax benefits.

Sometimes our small businesses need the assistance of government, sometimes we need government to stay out of the way. So today I'd like to mention four issues of concern to me, and other small technology businesses that affect our contributions to the economy.

One, the cost of healthcare insurance is becoming more and more out of reach for small businesses. I pay \$68,000 in annual premiums for 11 employees. So far, I consider myself lucky as our employees have not faced any major health issues, but what if we were to have a huge claim tomorrow? My costs could double or triple overnight. Why should I currently have a competitive advantage over another business, who's only fault is that someone on their staff or family happens to get very sick? Business should compete on the basis of value-offered, and not on which business has the lowest healthcare claims. Please, help make healthcare more fair and affordable for small businesses.

Two, as a small business owner, I'm very appreciative of the temporary increase to the Section 179 tax benefit enacted under the Economic Stimulus Bill. As I said earlier, one of my clients specifically identified this program as allowing him to afford \$100,000 project which increased his productivity 8 percent. While we are most appreciative of this one-year bump, we ask for your support in making this \$250,000 limitation permanent.

Three, we are concerned with the impending implementation of a 3 percent Federal Income Tax Withholding on government contracts. A 3 percent withholding would represent 30-50 percent of my gross profits on educational sales, which is a huge disincentive for me to continue with this business. I want to thank this Com-

mittee for its work to repeal this withholding. This was bad tax policy when it passed, and it is bad tax policy now.

Four, IT security is important. It is essential for my clients. We urge this Committee to implement legislation that would create a Small Business Cyber Security Task Force to study how industry and government can work together more effectively to promote cyber security amongst small businesses.

I certainly do appreciate your attention, as well as the honor of appearing on this panel today. We thank you for your vigilance in helping small businesses to remain competitive. I would be pleased to answer any questions you might have.

[The prepared statement of Mr. Steiger may be found in the Appendix on page 74.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Steiger.

Mr. Hodgson, I would like to address my first question to you, if I may.

We all know that the housing industry is critically important to the overall health of our economy. And in your testimony, you indicated support for a first-time home buyer's tax credit. How could this type of tax credit jump-start the housing market, and help homebuilders and firms like ConSol?

Mr. HODGSON. Well, the homebuilding industry actually reaches into many business sectors, and so by enacting a first-time tax credit for home buyers, that would stimulate the purchase of new homes. And that would help the homebuilders, but the homebuilding industry, just looking at the Association, is really about a third of their membership. A lot of the members are like me, so it would also stimulate the retail industry, the building supply industry, the energy services industry, which I'm a member of, and the financial industry. So I think it would have a very large effect on companies, small businesses like mine by getting the housing market back on track.

Chairwoman VELÁZQUEZ. Can you give me some suggestions as to how this can be structured so that it just not jump-starting the housing market, but also encouraging the development of affordable housing?

Mr. HODGSON. Well, assuming the home tax credit is a first-time tax credit, that's going to affect the affordable market. I think the proposals that have been in the Senate and the Ways and Means Committee have been around \$7,000, so that really only addresses the, I would say affordable housing market, the first-time home buyer. So I think that would have an impact. And right now, the housing economy needs any sales, but the sales that are critically absent right now are the first-time home buyer, the person who is trying to afford that home for the first time, both because of the availability of product, but also the lack of financial qualifications. The credit market is very, very difficult to qualify in.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Fischer, with an increasing number of small firms having access to the Internet in various communities, many have opted to advertise online. I would like to get your perspective on the trends Google is seeing with small business eCommerce. Are more small businesses advertising on the Internet?

Mr. FISCHER. The first thing that I would say about small businesses, overall, and that this Committee surely knows well is, some of the biggest challenges small businesses face are in time and resources, that it's often one person, or just a handful of people driving to drive a business. And, so, we see more and more people coming online, but part of what's allowing that is tools of the sort that Google offers, that other companies offer, to make it easier for companies to establish an online presence, which is a critical step, obviously.

And then as that happens, we're seeing more and more businesses start to advertise their site. And we see many, many success stories through advertisers who come online and are able to take a small business, and offer to grow it significantly.

We have stories. I would point, for example, to one story of a realtor in the Outer Banks of North Carolina, who has been in business since 1978. It's called Twiddy Real Estate, and they describe that the difference between coming—they describe themselves as having been in the dark ages before they came online, and now they sort of describe themselves as being in a renaissance, because they said they've been able to target people much more specifically through advertising, to find people who are searching for rentals on the Outer Banks; whereas, before, they might just have to buy newspaper advertising, or do brochure mailings in a much broader way, and so it's that targeting that's really allowing small businesses to reach out to their niche audience very effectively.

Chairwoman VELÁZQUEZ. If we see that it has a significant impact on small businesses, can you talk to the Committee about what tools Google offers to assist small businesses, and are they affordable?

Mr. FISCHER. Absolutely. The first thing that Google does is take that first critical step of helping businesses come online, who may not be online. And, as I said, often time is a big constraint, so Google's local business center allows small businesses to come and actually register, create a presence online and be found through Google, through Google maps when you search in your neighborhood for the local plumber, or bakery, or electrician, so that they have a presence, and they have a basic web site. And that is free. And we offer other free tools that allow you to build-out a more dynamic web site, as much as you want to build.

And then the advertising, that enables you to both move into advertising, online advertising which I mentioned. There's only a \$5 sign-up fee, and you control your budget. We give you a great deal of ability to target exactly the audience that you want to reach, and to manage your budget, as appropriate, for your business. And out of that, we see many examples of people generating very high return on investments.

And then, finally, I would point to our ads program called AdSense, where we allow you to place our ads on your web site. And that was some of the examples that I mentioned earlier, and generate revenue that way, as well. And that, again, is not only free, it actually generates revenue. But all of these, we aim to set up tools that people can access free of charge, as much as possible.

Chairwoman VELÁZQUEZ. Mr. Misener, with shoppers becoming more Internet savvy, the competition to attract new customers is

growing more intense. What advantages do small firms have when it comes to attracting new customers?

Mr. MISENER. That's a great question, Chairwoman. The advantage the small business has is they can focus today on what they do, and like most, what they do best, and like most. They can focus on their businesses, as opposed to trying to figure out the Internet, and the technology associated with.

If you look back a decade, or a dozen years ago, the companies that were founded at the time, Mr. Fischer's company, my company, Yahoo!, eBay, all founded by engineers. And that's because at the time, they needed to be technically savvy people to understand the technology to operate on the Internet.

No longer is that the case, and so today's small businesses have the advantage of being able to concentrate on their niche markets, their specialties, their expertise, and then sell it through the Internet in a way that does not require them also to be technologists.

Chairwoman VELÁZQUEZ. What challenges do entrepreneurs face in retaining customers as the number of online businesses continues to grow?

Mr. MISENER. I think it's a good news story, Madam Chairwoman. They actually are doing quite well online. And as I indicated, the size of the small business market online, the proportion of sales online by small businesses, I think is surprisingly large. And it is a good news story. The only sort of foreseeable concern that we have is one that we share with Mr. Fischer, which is somehow a closing of the Internet would actually close off the markets to small businesses and entrepreneurs, and so we're anxious to see the openness of the Internet preserved.

Chairwoman VELÁZQUEZ. Thank you.

Dr. CERU, in the past 15 years, we have noticed an increase in small business entrepreneurship that can be attributed to the Internet. What is it about the economics of starting a business online that is so attractive to entrepreneurs?

Mr. CERU. A number of factors, and I think both of my colleagues have alluded to that, in part. We describe this as the long tail, or the fact that now a small business can effectively reach niche markets, and not have to have a brick and mortars location, and attempt to reach them by traditional means, but through the great reach, and the breadth, and the depth of the Internet, be able to access customers who might not normally find them.

This, combined with the fact that the relative investment is insignificant, if any at all, to establish an online presence, spurs many business owners to start their businesses in that virtual environment.

Chairwoman VELÁZQUEZ. And what can you tell us in Congress to do to continue to promote such activity?

Mr. CERU. I think there's many things that need to happen to promote that activity, not just in an online venue, but in the traditional venues, as well.

Chairwoman VELÁZQUEZ. Especially during this difficult time, sir.

Mr. CERU. Especially in these times, yes. I think the SBIR grants are very important. Based on our experience at Babson College and my experience advising small companies, I believe we need to focus

significantly on science, and technology, and engineering. That is largely supported, in part, by government programs at the national level, more so than at the local level. I think innovation should be continued to be supported in our country, both from a policy perspective, through tax credits, as well as through educational efforts. And, finally, encouraging women and minority ownership of entrepreneurial venues, activities, companies is essential as our country's demographics are shifting dramatically, and there's more of a need to be inclusive of these different demographics in the new economy.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Steiger, you spoke to us about the role that small business loan played in terms of providing access to capital for you to start up your business, or for some of your clients. Given the difficult times that we are in in our economy, what do you think the SBA can do to spur greater investment in start-up firms?

Mr. STEIGER. I don't know what you can do to increase it, but I'll tell you that the programs you have are very effective. The programs you have were able to let me build a building, which certainly helps the local economy. It allowed me to lock in my financing for 20 years, which gives me a nice stable path on which to grow the economy, so I found those programs very effective. I hope you continue them.

Chairwoman VELÁZQUEZ. Thank you.

Now I recognize Mr. Buchanan.

Mr. BUCHANAN. Thank you, Madam Chair.

Mr. Hodgson, you're from California?

Mr. HODGSON. That's correct. Stockton, California.

Mr. BUCHANAN. As a homebuilder. I think you hear California, I'm from Florida, a member of Congress from Florida, but Vegas has been hit the hardest in terms of some of the areas. But looking at some of the incentives, you think of a recession, down 3-4 percent, 5-10 percent in business, but homebuilders, at least in our area, many of them are down 50, 60, 70 percent. It's simply a supply and demand issue, or way over-built, and we just don't have demand right now.

Some of these incentives that you're talking on behalf of yourself, and the Homebuilders Association, what do you think are the top two or three that really can make a difference? I mean, it's nice to have tax credits, as you mentioned, to give to the buyers, but from the builder's standpoint, unless you have a way of selling off those credits to generate some cash, many of them have losses, so I'm not sure where we go with that. But I want to talk to you a little bit about just what more we can do to help, without goofing things up here, but actually be a real help to small homebuilders, and builders in general, because it's a huge issue.

Mr. HODGSON. Well, I hate to be limited just to few, but let me give you top -

Mr. BUCHANAN. Give me your top two or three.

Mr. HODGSON. You're absolutely right. Our market is down 60, 70 percent from two years ago, and we're predicting the market to go even lower in 2008. Just as an example, if I may, we do the front end of construction work, and we do energy design, and mechanical design, et cetera. Two years ago we were doing around

21,000 permits through our office, and it sounds like a large number, but let me kind of give you a perspective on that. And that means that we did about 800 master plans, and those are homes that are models that other homes we built from. That was in 2005.

This year, we've done eight, so new construction has stopped. And builders really are not taking the risk because of the foreclosure market product that's coming down the road, and the inventory that they will have. But in our market, and I apologize, I'm not familiar with the Florida market. Really, most homebuilders have limited their own inventory, and it's now the recurring—the inventory that's coming back that is really causing the supply. So, to me, the number one thing to a small business is expanding the carry-back period for the net operating loss. That would allow capital immediately into this year, into the builder's books, and allow them to take credit for that.

The second is allowing -

Mr. BUCHANAN. Let me, on that, how far are you looking to carry it back?

Mr. HODGSON. I believe currently it's a two-year carry-back, and it's been proposed for four years. And that is what we're supporting.

Mr. BUCHANAN. Okay.

Mr. HODGSON. The second, which is more dear to my heart, necessarily, as I'm an energy efficiency advocate and try to push builders to go beyond just code, and what's very difficult in our market now is the Federal Tax Credit for energy efficient new housing. It was passed for three years, and then extended for a year. The mentality of the homebuilder is, if I want to do something and change for market differentiation so I can sell my product, as opposed to a different product, is I need to make a long-term risk assessment. So when I'm building a product, I have to look at where that product is going to be two, three years down the road. And if the tax credit is only good for a year, I'm not going to make that judgment call, because I don't want a product I build in 2008 to look different than the product I build in 2009 or 10. So we really support an extension.

I know the House and the Senate have passed different versions of two years. I think, personally, that's far too short. It should be a long-term effort, a five or ten-year credit, or make it permanent. And make it above code, so you're always driving energy efficiency. So those would be my top two.

Mr. BUCHANAN. Okay. I know in our area, the whole concept of green housing and more efficiency, not just in our area, but something we need to do as a country, when you're talking about tax incentives for buyers, I assume that's what you're referring to, is that what you're talking about there?

Mr. HODGSON. Well, the tax credit I was talking about specifically is 45L, an extension of that. And that actually goes to the homebuilder. So the person who makes the decision in that -

Mr. BUCHANAN. What about the purchaser?

Mr. HODGSON. The purchaser, we're also supporting that that extension be—I believe that also has been proposed for a two-year extension.

Mr. BUCHANAN. Because I think there's a lot of people that will buy homes if there's some tax credits, as a way of stimulating the market, move out of what they've got, if they can cut their energy cost in half, and that's a good thing for everybody.

Mr. HODGSON. Absolutely. That, I believe, is covered in 179 on the commercial side. And I'm not a tax person, so I'm not sure what the residential. I think it's 25, with a letter after it.

Mr. BUCHANAN. Another thing, I'd like to get your general feeling, just real quick, on the sub-prime. How did that affect your area? You said 20 percent of homes that were sold in the last couple, three years were sub-prime lending, which, as you know, people don't qualify for conventional financing, so we created all this creative financing. But what's been your experience in your immediate market, that area? What's your thoughts on it?

Mr. HODGSON. Well, Stockton occasionally gets national publicity. One of those was about six weeks ago as being the foreclosure capitol of the nation, so we have very direct experience. And it's approximately 40 percent of our market was sold in '05 and '06, about two out of every five homes were sold in the sub-prime market, with sub-prime market-type loans. So that's coming back to really build inventory, and inventory, it's a supply and demand, so what we're finding is that that's going to depress our market through 2008, probably through 2009. We're not looking for any turn in our market through 2010.

Mr. BUCHANAN. Okay. Thank you.

Mr. Misener, what's been the experience, and I know Amazon has been a huge success story, but what has been the growth online sales, you said since '94. Has it continued to be 20 percent a year? What is that number?

Mr. MISENER. Yes. Thank you, Mr. Buchanan. We just released our quarterly report yesterday, and our growth was in excess of 30 percent, and so the online market does continue to grow. Roughly 30 percent of the units that ship as a result of the sale through Amazon are from other sellers besides Amazon, our retail platform.

As I mentioned before, there are 1.3 million small businesses and individuals who sell through Amazon's platform. Picture this, if someone comes to Amazon and wants to buy a particular product, say a frying pan, they'll come and see a picture of the frying pan. There will be a description of the frying pan, and perhaps we'll have it for sale for a certain price. But right next to our sale price is the price from other sellers, competing directly with us. And oftentimes it's lower, and people buy. As I say, 30 percent of the units sold through us were not by sales by Amazon.com. And, so, we're seeing a sustained growth there.

The number of active customer accounts is now 79 million, that's people that have bought something in the past year from us, so that, plus the overall demographics, which I mentioned before, which I think are so important, that systematically small businesses are being under-counted in their online sales. So, it really is a good news story, I think, at present.

Mr. BUCHANAN. It's a great story. Let me ask you just practically, just I know a lot of companies have online sites. I mean, it's unbelievable. But my experience is that very few are very effective. Now, a lot of them are sometimes just informational, and

that's very helpful, helps people make a decision. But how do a lot of these sites get more, and really I'm going to ask you, too, how do they get more out of their sites, because my sense of it is, is that for every hundred sites, there's maybe two or three, I'm not talking about big corporations, but I'm talking about small business, are really effective in doing business in a significant way online. I mean, I think it's come a long way. Look at the overall numbers, but there's a lot more sites, but my own experience, if I was to think of 100 sites, there's probably five, ten that really have some sense of figuring out where it's really been a great tool. But I think most of them are up there, and they don't get the hits, and that. But how does a small business really take advantage of it? And I think, obviously, you've got some great opportunities, and obviously, Google does. But I want to have both of you focus a little bit on that today.

Mr. MISENER. Sure. I'd be happy to, Mr. Buchanan.

Mr. BUCHANAN. And do you agree with my premise, that out of 100 sites that are up there for commercial use, small business, that a lot of them are not nearly as effective as they can be. And I'm sure there's five or ten that really do a good job, but 90 percent are not doing what they'd like to do with their sites. That's just my experience.

Mr. MISENER. I don't have statistics on that, but I think that you're probably in the right ball park. I think part of it is a legacy of the experience of the mid-90s. In the mid-90s, the way to get online was to create your own web site and run it yourself. That was the only option. But now there are so many other options, we see people starting to switch over so that a lot of the services that are technically difficult, payment processing, for example, or advertising, or search functionality, or fulfillment, all these things are difficult to manage, but now service providers are stepping in and allowing small businesses again to concentrate on what they do most.

We have this worldwide fulfillment network. This involves gigantic distribution centers throughout our country and around the world. Why not allow small businesses to come in and allow their products to sit in our warehouses until they sell them, and then we will take care of the shipping for them, so they don't have to be experts in shipping, or inventory management, and those sorts of things.

So, I think despite the rather gloomy view of the web sites around the Internet that you have and I share, I think we're going to see shifts now by small businesses to service firms, like ours, and others. We're not the only ones, of course. That will allow them to concentrate on the things that they do best.

Mr. BUCHANAN. Let me ask you, and I'll ask both of you, one of the things that's a little more controversial, and I'm not for raising sales tax, but how do we deal with this issue of Amazon, or my son's play football. They buy their shoes in Minnesota. They sell into the state, a lot of local merchants, small businesses say that you guys have an advantage over them because when they go buy a book, they've got to pay 6 percent in Florida, or 8 percent in Texas. What's your position, just out of curiosity, about how we

deal with that issue between the state getting their share, and that being unfair to local merchants? What's your thoughts on that?

Mr. MISENER. There's a real simple way of getting at it. It's called the Streamline Sales Tax Project. This is where many states have come together to simplify their sales tax codes. The reason why Amazon currently is not required to collect sales tax in many states is because of the Supreme Court decision back in 1992, which said that the sales tax codes in our country are so inordinately complex that it would be unconstitutional burden on eCommerce, or interstate commerce for us to be required to collect.

We have taken it upon ourselves to participate with the states to simplify their sales tax codes in an effort to get to the point where it no longer would be that burden. And, so, my guidance would simply be that if states are interested in this, to join in and participate in the Streamline Sales Tax Project, which is aimed at getting to the point of simplification, where companies like ours can collect.

Mr. BUCHANAN. We want it to work for everybody, but it's something that I deal with. I was Chairman of the Florida Chamber, and it was a big issue on both sides, people felt about it.

Mr. Fischer, just supporting small business, and you guys have done a lot in this area, how does that small company get more focused? I mean, obviously, if you're selling a product across the country, it's one thing, but how does a merchant in Sarasota, Florida, Tampa, Florida impact his local market? Maybe you're selling a car, a house, they're not selling books across the country. How does that work, where you can get the local impact, get the biggest bang for the buck, working through Google?

Mr. FISCHER. Sure. Well, Congressman, one of the key features of our advertising program is that we allow you to target not just the type of audience, the particular searchers by their queries and what they might be searching, but actually by location. So, for example, you could choose Sarasota. You could choose the State of Florida, you could choose particular areas to target. And some small businesses want to sell nationwide, or even target the entire world, and some it's more appropriate for them to target specific areas, and we enable them to do that.

If I might, I would like to just go back to your earlier question about web sites, and how useful, and how well designed they are, if I could.

Chairwoman VELÁZQUEZ. You will have 20 seconds.

Mr. FISCHER. Twenty seconds, sure. The only thing I would say is I agree with your general premise, some are good, some need work. We provide a series of free tools that actually allow advertisers to both—sorry, web sites to actually track the use of their web site, and to actually provide tools to optimize their web site to improve it, because you're right. You can't just have a web site, it needs to be a good web site to be effective.

Chairwoman VELÁZQUEZ. Thank you. Mr. Ellsworth.

Mr. ELLSWORTH. Thank you, Madam Chair. Thanks for holding this important hearing, and thank you, gentlemen. I've learned quite a bit.

I think I have solved one problem, though, today, for at least two of you. Mr. Misener, if you take the Kindle and you download the

Congressional record into that, and then give that to Mr. Hodgson, there should be enough hot air contained in there to heat all the homes that you build for the future, so it—so you might disagree. Thank you very much.

I think you can hear the common theme through this Committee in all of our hearings, is that we're asking you to help us help you. I think we went down the line. Mr. Hodgson, thank you. When I meet with homebuilders back in Indiana, they're very helpful, telling me just the nuts and bolts, the nitty gritty things they need, and what really restrict them from—I know a couple of months ago we were talking about the regulations on sidewalks in a very hilly area, and how that hampers what they do, and what they have to go through.

And one of the questions I have for you is, is your entire—in your position on the energy efficiency, is that pervasive through your organization, is that your's, or is that the homebuilders? It seems to me, the folks back home had said that the requirements that we're putting on are a bit restrictive, and adding to the cost, which is slowly down their homebuilding. Just if you can quickly touch on that, if that's the position of the national organization?

Mr. HODGSON. It's my position, not the national organization's position. I think NAHB has a very clear policy on what's cost-effective, and how they determine energy efficiency codes. My niche in the market is to drive builders to code, make sure they do a good job, and design well, and then to push them beyond code. And we have about a 20 percent market share in our area, which is California, basically, the southwest. And we're very strong advocates of energy efficiency, so I think my leaning is on the left side of the coast, which is also probably on the left side of the position of NAHB.

Mr. ELLSWORTH. Okay. Thank you.

Dr. Ceru, again staying with that theme of, you've studied this topic probably as much as anybody. One, two, three recommendations, if you were sitting in the Chairwoman's seat, don't try that, what would you say? Something in our power that we can do to help small businesses, you all do your job better, what would be your recommendations? Mr. Steiger said here's the three things, he needs healthcare. What would be your list of three, if you could do that?

Mr. CERU. Well, I think healthcare certainly is a burning issue for small businesses. As a small business owner myself for many years, it was a significant portion of my payroll expenses, in addition to paying the federal and the state payroll taxes, disability, and unemployment taxes. So healthcare is a burning issue.

Investment tax credits for small businesses is a very important issue. As an owner of a technology company, we did benefit from Section 179 benefits, as well. I think today they're even more important. What we see at Babson College, and many of the colleges throughout Massachusetts and the country, is a significant interest in green technology, in energy-renewable technology, and many of these will require significant time to get to market penetration, and get to a pricing level that they become affordable on a mass scale. Between the beginnings of that idea, and the reaping of prof-

its from those products, I think on both the national, as well as the state level, investment tax credits can be significant.

And probably the last one is to take into consideration the sources of capital. Many entrepreneurs today are not getting traditional venture capital funding, they're getting more angel investing, small business loans, and banking loans. And the restriction of credit in today's environment, that source of debt financing is going to become more stringent, more difficult.

I, myself, participate in an angel investors group, and there's becoming more of a conservative sway in that group. I think to increase the benefits of investing and easing the restrictions, if you will, from a tax onerous perspective on that investment is the beginning fuel for that new source of capital, and that new source of activity.

Mr. ELLSWORTH. Thank you very much.

Madam Chair, I'd yield back. Thank you.

Chairwoman VELÁZQUEZ. Mr. King.

Mr. KING. Thank you, Madam Chair. I appreciate this hearing, and I very much appreciate this testimony. I really have something, I hope I've got time to ask from each of you. But I turn first to Dr. Steiger.

You made a mention of bad tax policy, and to make a clarification into that, I'd ask you from a withholding perspective, you pay wages on a weekly basis, I presume, and you're doing at least monthly deposits, I would think, on payroll taxes, and on income tax. Is the federal government's position, the message that you get, that that's not adequate, and that they have to then take the 3 percent out of the top of any federal contracts you might have, in addition to the withholding?

Mr. STEIGER. My understanding, if I'm correct, is that there's a program out there that has been pushed off, but that if I sell anything as a government contractor, or I sell anything under just part of a government contract, that if I sold you a computer for a dollar, and it cost me 96 cents, that the government paying me would withhold 3 cents on that dollar.

Mr. KING. And then you get a big check back when you file your income tax on April 15th.

Mr. STEIGER. A year later when I file my income tax, that turns out to be -

Mr. KING. And then you would have to calculate into your price the cost of that capital to carry that over.

Mr. STEIGER. I don't think that helps anyone.

Mr. KING. And I agree. And I just wanted to illuminate that. My point, though, is that you are now filing at least monthly withholdings for your taxes and your payroll.

Mr. STEIGER. I think my payroll is within a few days of after I pay my employees.

Mr. KING. Perhaps weekly.

Mr. STEIGER. Yes.

Mr. KING. And if that's the case, then, the federal government really doesn't have a concern about whether you're paying your bills or not, because you're paying them up front weekly or monthly. And to withhold an additional part, that's—I just wanted to reiterate that point. I'm glad that you brought it up. That's some-

thing that I think intimidates the potential people that might want to become the entrepreneurs, which I'd direct the next question then to Dr. Ceru on that.

I'm interested in all of you, especially the entrepreneurial background. Dr. Ceru, as I read through your testimony, and simultaneous to the time you delivered it, I'm quite impressed with the science that you put behind the evaluation of entrepreneurship.

I see in this testimony where you state, "Entrepreneurship is a complex phenomenon." And you've identified a lot of it, as much as I've ever seen, but that complexity I don't see referenced in your testimony, that complexity of how do we measure, let me just say, the intimidation effect of government regulation, or the fear of the taxes that Mr. Steiger has referenced? What is the psychological composition of the entrepreneur, is it genetic, is it nature versus nurture? How do we raise more? And then, or if we can't, how do we then prepare a climate by which these entrepreneurs can grow and blossom, as opposed to getting locked into the corporate structure for somebody other than their own aspirations?

Mr. CERU. This is, perhaps, my favorite question of all to answer. It's what most of my classes begin with, the question of nature versus nurture with entrepreneurship. And what we found over the years by anecdotal experience, and by studies across countries, is that there are certain individuals who have talents that lend themselves more readily to entrepreneurship. That simply means they are self-chosen. There are individuals who have the expressed interest and desire in entrepreneurial activity, and we firmly believe, and have proven that it can be taught. These are skills and tools that can be taught.

Babson College, and I'm fortunate enough to be a part of this, is actually working in conjunction with a charitable foundation to develop a teaching curriculum for Latin America, for grade school teachers to teach their children the foundations of business and entrepreneurship. So not only do we believe this, but we're putting it into practice. And those skills center around the basic understanding of business, a basic understanding of where opportunities come from, and how to recognize an opportunity. And then from there, the tools that help individuals to shape that opportunity into a moldable business revenue model that enables success.

If I may just finally answer your question with, we're very fortunate in this country, because we have a national culture that encourages experimentation, and does not penalize failure. Much as no one wants to fail, we find that many entrepreneurs often will start a business or two before they start a successful business. In many parts of the world, this is culturally and nationally not acceptable. In this country, we're very fortunate to allow individuals to make mistakes, and learn from those mistakes, and then proceed.

Mr. KING. I'm quite taken by this. And I would say that, I suggest another look that might be also helpful with the perspective. If one could go back and survey the entrepreneurs as they get closer to the end of their career, the changes they might have observed, and the difficulties of doing business in today's climate versus that of a quarter of a century ago, and ask them the specific question; do you think you could do it over again, or would you do it over

again knowing what you know today? Were they blissfully ignorant, and youthfully exuberant, and did that overcome the lack of knowledge? And back to you, Dr. Ceru. And I recognize the clock has ticked out.

Mr. CERU. Yes, I'll be very brief with this. It is both. Many of the more seasoned entrepreneurs, if you will, will readily admit that if they knew everything they knew in their more mature years, they never would have taken the leap. But by the same token, these tend to be serial entrepreneurs who have taken multiple leaps. And my own experience, I work with a group of CEOs, six to twenty million dollar companies, they're all serial entrepreneurs. As their companies have been purchased by larger firms, their tenure is six months or less before they leave the established companies, and go back to yet another entrepreneurial activity. They have the gray hair that I have, so they're still not afraid to take that jump.

Mr. KING. I thank all the panel. I thank the Chair, and I yield back.

Chairwoman VELÁZQUEZ. Time has expired. Mr. González.

Mr. GONZÁLEZ. Thank you very much, Madam Chair.

My question is going to be directed to Mr. Fischer. And I truly believe this, that any business, big or small, just is not going to be successful unless they really are Internet savvy. That's where everything is going.

I appreciate everything Google has added, and it's very interesting, but there are a couple of issues, because I really would try to get in my own mind an understanding, if I was a small business person. I finally get to retire. I move to Hawaii, and I've got Gonzo's Custom Surf Shop. I've got my web site, and it's an interesting one. But the truth is, it's all about search and placement in order to get the eyes. And there's two different ways of doing that.

I've got my web site. It's pretty interesting. Hopefully, you'll capture it when someone is searching for custom boards somewhere in Hawaii. But, better yet, maybe I should also get an ad. I think that enhances and increases the chances of certain people seeing my ad. And that's what I—I'm going to reach from the search, which I'm sure you've read. And it's old now, but I think he was so far—John Battelle, the pronunciation.

"Neal Moncrief couldn't afford to have a bad quarter. In fact, even a bad month made things a bit tense at home. Running your own business is like that. When things go south at the office, you take it home with you. As a small businessman, Moncrief lives on the edge of profit and loss. A bad month means avoiding his local banker, putting off home and car payments, and having less meat on his family table. But Moncrief is proud of what he had achieved. He built a small eCommerce company, survived the nuclear winter of 2001-2002, and emerged with enough cash flow to take care of his family. Moncrief has search engines to thank for that cash flow, Google in particular. Thanks to the traffic that Google drove to Moncrief's online storefront, which I think was two big feet or something, Moncrief no longer worked for the man.

Moncrief is one of tens of thousands of merchants who have taken to the web since the Internet became a global phenomenon. For every household brand built during the bubble's infamous

glory, eBay, Amazon, Expedia, thousands of Neal Moncriefs toiled in relative obscurity building the web's bike shops and insurance agencies, it's button merchants, and stroller stores. These digital cousins of strip mall America are the very beating heart of the United States economy. Small business writ large across cyber space.

You think Amazon's got scale, you think eBay is huge, mere drops in the bucket. Amazon's 2000 revenues were around \$2.76 billion, but the Neal Moncriefs of the world" - and I think the Professor will love this - "taken together drove more than \$25 billion across the net that same year, according to the United States government figures. That's the power of the Internet. It's a beast with a very, very long tail. The head, eBay, Amazon, Yahoo, may get all the attention, but the real story is in the tail. That's where Moncrief lives.

But while the web may offer access to hundreds of millions of customers, you still have to let them know you exist" - which is getting to my point. "When folks went looking for something, they usually started at a search engine, and through some combination of luck, good karma, and would seem like fair play, when folks punch big feet or similar key words into Google, Neal's site came up first. Moncrief had never purchased an advertisement. All those search engine referrals were organic. 'We were the right answer for the search, so why buy an ad."

Now all that came to a crashing halt because he was no -when he went into the search, or people did, he was no longer at the very top. And the question was why? And I do want to get to that particular point.

"Google will have to determine what should come first when someone is looking, for instance, hip-hop. Who gets to be first in such a system? Who gets the traffic, the business, the profits? How do you determine of all the possibilities, who wins, and who loses? Because we all know when we go into a search, it's huge, and hopefully you picked up Gonzo's Custom Surf Shop. But, truly, I don't know if I'm going to be on page one, or page 100. If I'm page 100, no one is ever going to get to me."

So the question then goes, "Have we evolved where it's just not a web site any more. That's not going to be enough. You are going to have to go online with advertising." And then the question is how do you determine when Gonzo's Surf Shop comes up next to a particular search? Am I relegated to page 100? Do they have to get to page 100 before Gonzo's comes up, and my ad also pops up at the same time.

Mr. FISCHER. Congressman, at its core, Google, of course, is a search company. And above all else, we aspire and aim to have the best possible search results available. And that's a constant work in progress. Since day one, and Google now being almost 10 years old, we've constantly evolved, and we're constantly improving, working to improve our search engine and its capacity. And companies like, perhaps, Gonzo's Surf Shop, with a good web site still do appear, small businesses, plenty of small businesses do appear near the top, some may not. And what we always say is that we run our search engine, and for us, it's a church and state issue. You can't buy your way to the top of the organic search results, but

you can purchase ads. So you could have the best web site, and it might be really relevant. And if you do, then you can show it for free, like the example you mentioned out of the book. But you also have the opportunity to buy in.

I'm happy to go longer, but I recognize we're out of time, so I'll stop there. And we can follow-up, and provide more details, if you're interested.

Mr. GONZÁLEZ. Thank you, Madam Chair.

Chairwoman VELÁZQUEZ. Ms. Hirono.

Ms. HIRONO. Thank you, Madam Chair. And I thank my colleague for using the Hawaii surf shop as an example of an entrepreneur.

I'm particularly interested in promoting green buildings and energy-efficient homes, so this is a question directed to Mr. Hodgson. I commend your industry for stepping forward, and really pushing the whole process of supporting green building.

You mentioned Code Section 45L. Now that is just a credit for new homes, new homebuilding. Does it apply to remodeled homes?

Mr. HODGSON. 45L is for new homes. There is also a retrofit section for energy-efficiency improvements for rehab, or remodel, or renovation.

Ms. HIRONO. And is that an extensively used section by home-builders?

Mr. HODGSON. Well, the homebuilders I deal with are people who build new homes, and are not remodelers, so I'm not familiar with that. But I presume it's a code that's being proposed to be extended for two years, so I really couldn't speak to the popularity of that code.

Ms. HIRONO. Another question. I understand that there are national ANSI standards on green buildings, and there are a number of areas that these standards cover. I'm wondering whether you think that it would be a good idea for federal legislation, perhaps another code section that incorporates the ANSI standards, so that although it's voluntary, any builder who builds to ANSI standards with regard to green building should maybe get some other kind of credit, tax credit?

Mr. HODGSON. Well, the ANSI standards that have been developed by the International Code Council, and National Association of Homebuilders are a building code, so there's no credit associated, tax credit associated with green building that I know of.

Ms. HIRONO. Yes, I realize there probably isn't anything now, and my question is, should there be? Should we move things along even more than through the 45L tax credit?

Mr. HODGSON. I'm sure that would be an encouragement. Having federal legislation to promote green building standards, in my opinion, is not necessary, because the International Code Council is the combination of the three, sub-national or regional codes. And when they adopt this process, or adopt the ANSI-700 standard, which should happen in their 2010 adoption process, it will then become referenceable in the 49 states that use the I-Codes as a building code.

Ms. HIRONO. Does that include Hawaii? You said 49.

Mr. HODGSON. I think Hawaii is the example that it's not included, but I'll have staff get back to you on that.

Ms. HIRONO. So you're saying that's adequate to promote green building.

Mr. HODGSON. Correct. And then at that time, Congresswoman, what will happen is the local jurisdiction, or the state will make the call on what level of requirement they would want to have within the green building code. The beauty of having an ANSI standard is previous to this, there really was no building definition of green. And now there's a very good scale for the variety of features that you've looked at for green building, so that now we could have a measurable scale of what the green building is in the residential market, and what it's not. And that will become an integral part of our building code within three years.

Ms. HIRONO. Thank you very much. I yield back, Madam Chair. Chairwoman VELÁZQUEZ. Mr. Sestak.

Mr. SESTAK. Thank you, Madam Chair. I'm sorry I was late.

My questions may not have to do with the overall value attendant to this hearing, but what I was curious about going through the read-ahead is the value that small businesses give to the entrepreneurship that's made America great.

I guess my question is, do any of you see a depletion in the resources that are necessary to do that, much like oil is going to run out? I'm talking about human capital. China has passed us in the IT exports throughout the world, and I think more than now, as compared to 2001 until today, more than 50 percent of our IT companies that were wholly owned by the United States at that time now have foreign ownership.

More to the point, I guess, is number three guy in China said it wasn't the Harvards and the Yales we most admire about you, it's your community colleges that graduate the artisans that made your manufacturing prowess what it is. So my question really has to do, in my region, in Philadelphia region, Acker Shipyard, for the home-builders kind of gets to this point. We're importing 180 people to do welding, because we can't find the people with the skill any longer to do welding. You know, when I had them during Viet Nam War, you flipped your helmet, lit the arc, laid the bead. Now you have to sit at a computer and lay out welding, the bead and all, that old science of technology.

The question over here, I guess, is for small businesses, as you see the value of going on the Internet and doing all this, I went to four companies in Montgomery County in my district, and two of them out-source over 50 percent of what they do, not because they want to. They don't want to. They have to get a telephone book this thick through specs to India in order to make the kinds of programs they want, where they would prefer to have Americans do it. They just can't find enough of them.

This innovation that is so rampant everybody says in small businesses, and attendant to this great spur that got us to where we are, do you see that endangered from the artisan that helps your business, to this wonderful IT ability to compete, now no longer just with someone from Arkansas, but someone from overseas? It seems to me that's the most critical element for small businesses, because you all talk about this innovation that comes from somewhere. Where is it going to come from 30, 40 years from now? Or do you really don't think this is an issue much at all? Sir?

Mr. HODGSON. Homebuilding is not high tech, fortunately. I guess we're a little on the low tech side, but one of the critical issues as our market was growing previous to the last two years was the lack of qualified personnel. And in the California market, which I'm most familiar with, we made a very extensive effort, and I actually came from the community college system, to set up something called The California Homebuilding Foundation. And it's a partnership between the building industry and 22 community colleges to train framers, plumbers, electricians. And they actually give scholarships to these kids to go to community colleges. So I think the lack of qualified personnel was a huge issue, as we were going through our growth process of 2001-2006.

I'm not concerned with a lack of innovation in the homebuilding market. Homebuilders respond to market forces, and the public tells us what we need to build by what they buy. And as the market changes, we've heard green building, there are a variety of other issues in energy-efficiency and peak load reduction have been on the west coast market. We respond well to those things, because we survive well.

Mr. SESTAK. Amazon?.

Mr. MISENER. Just briefly, Congressman, we have two areas of experience here. One is within our company, and the other is with our customers. Within our company, it is a challenge to find qualified technologists. It constantly is, we'd love to see better technical education in our country to provide that steady stream of technical expertise. But outside the company, for our customers, in particular for our small business sellers through our site, we're doing our work to take that technical requirement away from them, so they don't have to worry about being technically savvy, so we're actually in a circumstance where we think we are able to provide services to our seller customers, and then inure to the benefits of our buyer customers that remove those kinds of that technical necessity, so you don't have to be an engineer from MIT to understand how to run a good small business online.

Mr. SESTAK. Any comment?

Mr. FISCHER. I would just agree with Mr. Misener is the sense that we focus on innovation, and we evaluate success by something that creates incredibly easy to use tools. And we usually measure that by a success, as something like InSearch where we have hundreds of millions of searches done in a month, and it's easy to do. And you can find what you're looking for. So when we think about innovations, some of the tools that I've talked about to make it easy for entrepreneurs to run their businesses effectively online, and so what we focus on is getting the right talent, and then providing those kinds of innovations. And I don't dare predict where

Mr. SESTAK. Talent is not a problem.

Mr. FISCHER. Talent is always, I would agree with Misener, talent is always an issue. And we see it as the driving force, if you get strong talent, so we have some concerns. But in terms of innovation, we think that we always—we will work hard to get the best talent we can. And by creating an innovative environment, getting people through some of the things that Dr. Ceru talked about, embracing failure, not liking it, but willing to live with it, knowing

that taking some risk is going to create the spirit of innovation and opportunities for success. And that's always been our approach, and to-date has been successful.

Mr. SESTAK. There may not be time.

Mr. CERU. Over time, but if I may, Madam Chairwoman. Yes? Chairwoman VELÁZQUEZ. Yes, go ahead.

Mr. CERU. Yes. Thank you.

I'd like to address that from two perspectives. The first is to take a look at it more from a historical trend, or change in models. And I think that we're witnessing a shift in the business models, and in the economy in our country that's happened at breakneck speed, compared to the change from the industrial age, to the manufacturing age, to the knowledge economy that we've since survived in, through the out-sourcing, and new models are being created.

My own perspective based on what I see working with young people constantly, is that I'm very bullish on our future. I don't think there is a shortage of innovation. I don't think there is a shortage of interest. I think there is a broadening of the skill set in the workforce, and some of that is an infusion of talent from other countries, as we once again become once a different type of melting pot. And I agree with my colleagues that there has been, and I have seen a push at the regional and community college level to educate young people for what was traditionally considered skilled or trade person jobs, which also is going to be an ongoing, very beneficial aspect of our economy.

Mr. SESTAK. Thank you.

Chairwoman VELÁZQUEZ. Time is expired. Mr. Steiger.

Mr. STEIGER. I'll be very quick.

I think there's two issues. One is yes, it's hard to get good people, and that's a problem when good people are probably needed. But don't give up hope, because the entrepreneurial spirit is going on all over the place. We're constantly getting new competitors. People are constantly starting new businesses. We see great new competitors join us every day, and so I don't think there's a long-term worry. I think things are bright.

Chairwoman VELAZQUEZ. Time has expired.

I would like to ask a question to Mr. Misener.

In your testimony, you discussed the lack of accurate data regarding the online economy. And without such measures, it is really difficult to measure the impact of the Internet on our nation's economy, as well as the extent to which small firms have an online presence.

Do you have any recommendations for developing a statistical benchmark to more accurately measure eCommerce activity?

Mr. MISENER. Madam Chairwoman, that's a terrific question, and certainly I do. It is the case that the federal government, as well as private interests, have been missing the role of small business selling online in a dramatic fashion. The Internet Retailers is a prominent trade magazine which annually publishes its list of top 500 sellers online, retailers online. Amazon is at the top of this list. The most recent version of this had our 2006 sales of a little bit under \$11 billion in 2006, but it completely missed the sales through platforms like eBay, which during the same period had \$52 billion of sales through its platform. eBay is not even on the

list. Google is not on the list. Yahoo! Is not. Microsoft is not. They missed these. They undercount them, and because so many of the sales through the platforms like an eBay are by small businesses, we're completely missing a large segment of the online economy. And so I would love for the Census Department to drill down deeper with its eStats, instead of just looking at businesses, like they tend to, and the business reports, try to delve down further to get at the small business seller online.

Chairwoman VELÁZQUEZ. Thank you.

Dr. Ceru, do you have any insights into how we can get better, or more accurate data?

Mr. CERU. Most of what we track through our research with GEM is more international, and more in terms of business starts, and business stops. What I can tell you is more anecdotal, and more I've seen at a local level, is that a lot of what happens through the eCommerce arena doesn't report out immediately, or as quickly as some other sources do, so it is, in essence, under the radar activity that becomes more difficult to track.

The question would come up is, are you tracking number of hits to a given web site, or actual purchases through that web site, as one of the distinguishing factors. And I think my colleagues are probably working on that very arena to try to get more closely to that.

Chairwoman VELÁZQUEZ. Thank you.

And my last question is to both Amazon and Google. We all know that the Internet has the ability to level the playing field between firms by allowing small businesses in remote areas to compete for customers. Can you talk to us about any special efforts to reach out to these businesses in rural locations to highlight the benefits of eCommerce?

Mr. FISCHER. Congresswoman, as your question indicated, it's—on the Internet, one of the beauties of the platform it creates is in some ways there are no rural and urban businesses. There are just businesses that have the opportunity to compete equally on a level playing field, as you suggested.

Our primary focus is on trying to provide, as I've discussed, the tools that enable that as simply as possible. We have a number of outreach programs that we do in terms of outreach to different types of communities to provide the necessary education. We do that to certain communities, we do that to certain minority groups, and so on, as appropriate. And our goal is to provide tools that work effectively for all groups and all entrepreneurs, as effectively as possible. It takes a variety of flavors, but largely, we think there's a lot more in common across these, and by creating a level playing field, you can create tools, and you can create education materials that will work effectively for a large group of entrepreneurs.

Chairwoman VELÁZQUEZ. Mr. Misener.

Mr. MISENER. Yes, ma'am. I'll be brief. I certainly agree with Mr. Fischer.

Just like the Internet has removed the barriers to consumers whereby a rural or isolated community may not have but one or two retail outlets, they're no longer beholden to those one or two retail outlets. They have the entire Internet available to them.

Likewise, do small businesses. Small business selling through Amazon isn't beholden to just a local community of buyers, but rather to the 79 million and growing active customers of Amazon. So it really is a great enabler, and I think a very good news story for small business.

Chairwoman VELÁZQUEZ. Thank you. Mr. Buchanan.

Mr. BUCHANAN. I know that Madam Chair is going to want me to be brief, so just real quick.

I wanted to get, Mr. Steiger, your experience. You said you had good experience with the SBA, but were they with you there day one when you were looking at—I assume you had a business plan. Did they go through the business plan? I was just curious of the experience that you had with the SBA, and then have you gone back for additional capital? Because one of the things, I think, Doctor, you said, and I don't totally agree with, is the idea that I think banks are getting tighter and tighter on credit, and I think we're going to have to look for vehicles like the SBA to stimulate the economy. I'm not sure you said exactly that, but I just want to get your quick analysis of how long it took, and that type of thing, in 30 seconds.

Mr. STEIGER. I didn't use the SBA at start-up, or when we purchased the business. I used the SBA when I knew I was stretching myself to grow the business, to build a building to be stable, and to—and I just bought my building six months ago, so it's a recent program. But it made the difference of being able to grow, and not grow. And, in that case, I think it was important.

Mr. BUCHANAN. Dr. Ceru, just to wrap up with you. I want to thank you for what you're doing, because I think we need to, and this Committee does, we need to really celebrate risk-taking in entrepreneurship because that, in my opinion, is the way we compete with China, India. We are in a global economy, and we've got to do everything we can to embrace risk-taking. I know in Florida, the Federation I headed up is 137,000 businesses. Those businesses, 99 percent were small business. Some day it will become—Google started as a small business, becomes big some day, so what you're doing in your area, we have to continue to do that.

Let me say this. What I heard a statistic, out of 100 - this is a while back. The U.S. Chamber, 100 businesses, 92 fail in five years, eight succeed. What is the biggest reasons that we—how can we help more businesses, assuming only eight out of 100 succeed in five years? What more can be done to—you think the biggest challenge is for people that start up in business, why they fail?

Mr. CERU. We've seen a number of different issues, and they range from not having a good plan, to not having a good operating plan. And many times, we teach entrepreneurship, we have no shortage of brilliant ideas. I tell students all the time there's no such thing as a not good idea, but is it a good business concept? Is it a good business? And the shift from having that idea, turning into operations, living with it, managing through it, is a skill set that needs to be taught.

There are many agencies like the Small Business Administration that does provide tools, and training for these individuals. I participate through the Small Business Educational Association of New England, in providing some of that. So I think we have to provide

them with resources, we have to provide them with go-to centers, if you will. And at some point in time, we do have to provide them with sources of short-term liquidity to help them manage through what might be difficult periods in accounts receivable, or extended downturns in the economy.

Mr. BUCHANAN. And I guess that's one thing I've seen or experienced, is a lot times they run out of capital. They're always a little more optimistic. It usually takes a little bit longer, costs a little bit more. That's probably a big component why some don't succeed. They just kind of quite not get there in the capital. Is that what you've seen?

Mr. CERU. Some of that running out of capital is inefficient management of inventory, or inefficient management of receivables that ultimately results in a reduction in capital. And the companies that I've worked with that have had the best success with that have had good internal management policies, combined with revolving line of credit, as opposed to an extended loan.

Mr. BUCHANAN. And just the last question you touched on, is how much of it is driven of the successful companies, is just personality. What you touched on earlier, you didn't put a percentage on it. Let's say 100 people go in business, and why some succeed, and don't. But how much of it is just the individual, he or she, that type of thing, regardless? Because I've seen people, great plan, plenty of capital, still not make it. But what's your thought on that?

Mr. CERU. That fire in the belly, as we call it, is essential to get the idea off and rolling, and started. But one of the things that most entrepreneurs need to learn is, they may be the person to start the business, but not the person to manage the business on an ongoing basis. And one of our entrepreneurs who comes in to speak at Babson College said it most eloquently, that entrepreneurship is a team activity. And finding the right team members to fill out your great idea is essential to keep the business going.

Mr. BUCHANAN. Thank you, doctor. And thank you, Madam Chair.

Chairwoman VELÁZQUEZ. I understand, Mr. González, you want to ask -

Mr. GONZÁLEZ. Just an observation, I guess, and that is, this Committee's chief concern is small business, as you obviously pick up on that. And as business models change, technology moves forward, we just can't allow maybe what's maybe going out there, I'm not saying that it's happening, that would ignore the needs of the small business person. And I understand, Mr. Fischer, Google doesn't have a subscription service for Gonzo's Custom Surf Shop to be included in a search. And I think that's the best business models you guys could ever come up. And you still have to make money at the end of the day, and I understand advertising.

The concern then is, does the advertising then bump the placement, and such, and the exposure that a small business? And that is really where I'm coming from on that, because that's where you make money, and I understand that.

Mr. Misener, the concern that I have, of course, with eCommerce and such, it's a blessing for many, and you've indicated that you have many suppliers that are small businesses, and so on, that you don't have all of the inventory, and some of it is provided by small

businesses. By the same token, I know that in San Antonio, historically, we've had a little bookshop, the Twig Book Store, or Book Shop, and we thought it wasn't going to survive Barnes & Noble and Borders. They did. Now the question, I mean, they're barely hanging in there. The question is, is Borders or Barnes & Noble going to survive online? And we understand all of that, and we still have to be very mindful of what's going on out there. And I understand you also have to stay in business and make a profit at the end of the day.

And there are some things that appear to be fair, and some things that don't. eBay and PayPal, and how they restrict the consumer in the way in which they can purchase through their service, all of that we have to be very mindful as to how the consequence to small business men and women in America. But I commend all of you. Thank you so much for your testimony today.

Chairwoman VELÁZQUEZ. Before we wrap up, I just would like to address a question to the two small businesses that are represented here.

We passed a first stimulus package, and there is discussion about a second stimulus package. Mr. Hodgson, and Mr. Steiger, I want you to answer this question based on your own business, and your own industry.

What would you suggest is one legislative fix that will help your business, your industry continue to create jobs?

Mr. HODGSON. The one fix for my personal company is the extension of 45L. Our niche is in the energy-efficiency market. I think the stimulus to the housing market is the extension of the tax credit, in general.

Chairwoman VELÁZQUEZ. Mr. Steiger.

Mr. STEIGER. I don't know if I'm prepared to answer that. I think I came -

Chairwoman VELÁZQUEZ. You have a long list?

Mr. STEIGER. I have a long list.

Chairwoman VELÁZQUEZ. You can submit it to us.

Well, thank you all so much. This was very insightful, and I really want to take this opportunity to say that it's been a great hearing. The information has been very valuable to us. And in the sense that we continue to see how we can best provide legislative fixes, so that we can enable small businesses in this country to continue to do what you do best, and that is creating jobs at a time when the economy is in such a downturn and we need to see if we can play any role to get this economy back on track. With that, I thank you.

I ask unanimous consent that members will have five days to submit a statement and supporting materials for the record without objection. So ordered. This hearing is now adjourned. Thank you.

[Whereupon, at 11:56 a.m., the Committee was adjourned.]

NYDIA M. VELAZQUEZ, NEW YORK
Chairwoman

STEVE CHABOT, OHIO
Ranking Member

Congress of the United States

U.S. House of Representatives
Committee on Small Business
2301 Rayburn House Office Building
Washington, DC 20515-6215

STATEMENT

Of the Honorable Nydia M. Velazquez, Chairwoman
United States House of Representatives, Committee on Small Business
Full Committee Hearing: "The Role of Small Businesses in Stimulating the Economy"
Thursday, April 24, 2007, 10 a.m.

This forum takes place during the 45th anniversary of National Small Business Week. The occasion reminds us of the important role that entrepreneurs play, employing half of the private sector workforce and creating almost 80 percent of all new jobs. Small businesses are also the country's primary source of innovation and drivers of advances in virtually every industry.

It is no exaggeration that small firms are the lifeblood of the American economy. That is important to keep in mind, given challenges we are facing. The sub-prime mortgage crisis continues, and oil prices are climbing to record highs. Unemployment is rising, and our place as leaders of the global marketplace appears in peril. But small businesses can help us get things back on track—if they have the right tools.

That's why today's hearing is so timely. It will explore how to best help entrepreneurs continue their role in stimulating the American economy. We will do so with an eye towards addressing current economic realities and look for solutions that lead to sustained economic growth.

Joining us, are witnesses from an array of cutting-edge industries. Their insights into the challenges facing the economy will be added to our discussion of these issues. They will also help explore how current challenges can be overcome through responsible policy and strategic partnerships that are rooted in the work of American small firms.

As a nation, we can find a path from this economic downturn, to recovery and growth. Small businesses have already proven they are very good at leading the way. In fact, throughout history, entrepreneurial activity has been a principal reason our economy has regained its strength. Many businesses begin during economic slow-downs, creating jobs, products and services.

Take the last major recession as an example. During the early 1990's, self-employment—a core piece of the country's small business sector—was at an all-time high of 7.7 percent. Moreover, some 25 percent of downsized managers over the age of 40 chose to start their own companies during this time. Most of their firms endure as successful, modern enterprises. Others fared even better, and have given birth to companies such as those on today's panel.

Finally, it is no secret that during the late 20th Century, technology was a key force in jumpstarting—and expanding—economic activity. It remains so today. That was evidenced in the SBIR/STTR reauthorization we approved in the House yesterday, with overwhelming bipartisan support. It is also clear in the development and construction of energy efficient homes, as well as the marketing, tracking and shipment of small business products around the globe. Small businesses are leveraging the power of high tech tools. These entrepreneurs are harnessing real-time communication, market-mapping software and on-demand inventory systems. They are extending the reach of the Internet and bridging the path to platform independence. With each step, they revitalize our economy and build the market-leading America of tomorrow.

This Committee has always supported such efforts. At a time when small businesses—and our nation as a whole—face daunting obstacles, we will redouble our work to advance policies that help entrepreneurs thrive in the markets of the 21st Century.

U.S. House of Representatives
SMALL BUSINESS COMMITTEE

Representative Steve Chabot, Republican Leader

Thursday,
 April 24, 2008

Opening Statement of Ranking Member Steve Chabot

The Role of Small Businesses in Stimulating the Economy

Madam Chairwoman, thank you for holding this hearing examining the role of small businesses in stimulating our nation's economy. I would also like to thank our impressive panel of witnesses. We are looking forward to hearing your testimony. I'd like to extend a special welcome to Marc Steiger, a small businessman from my district in Cincinnati.

It is fitting that we are holding this hearing during Small Business Week, as we recognize the contributions of America's small business owners and workers. These are the men and women who use their entrepreneurial talents to help improve our lives, sustain our economy, and expand opportunities for all of us.

There is no doubt that small businesses drive America's economy, creating about 70% of the new jobs and accounting for more than half of our private sector employees. These jobs are important, and in a time of economic uncertainty, they become even more critical to moving our country forward.

Small businesses are playing an increasingly important role in the technology sector. Statistics show that they are on the cutting edge of research, hiring 40% of all technology employees and generating thirteen times more patents per employee than large firms.

Small firms also lead our nation in trade. NAFTA and Free Trade Agreements, such as those with Chile, Singapore and Peru, boost prosperity, strengthen our ties with other nations and create and support new jobs for America's workers. Almost one third of all U.S. exports are generated by small businesses, and 97% of all U.S. exporters are small companies.

Small businesses also create opportunities for every American. The Small Business Administration reports that the number of women-, minority- and veteran-owned businesses is growing rapidly, and comprises an increasing percentage of our economy.

These successes are impressive. But we must do all that we can to give small firms the tools to prosper. They need access to capital, counseling, and programs to help them build and expand their businesses.

By supporting policies that keep taxes low, promote free trade, allow small businesses to pool together to purchase health insurance, and reduce frivolous lawsuits, we can help small companies to compete.

Small businesses exemplify the American values of hard work, ingenuity, and achievement. And during Small Business Week, we honor small companies for their vital contributions to their communities, and to our nation.

Again, Madam Chairwoman, thank you for holding this hearing. I look forward to hearing from our witnesses. I yield back.

###

Statement of Rep. Jason Altmire
Committee on Small Business Hearing
“The Role of Small Businesses
in Stimulating the Economy”
April 24, 2008

Thank you, Madam Chair, for holding today’s hearing to discuss the role of small businesses in stimulating the economy. Small businesses are not only an important source of job growth in our country, but they also drive our innovative spirit. At time when we must address the realities of today’s slowing economy, we must look to small businesses to get us back on track and to help us sustain economic growth.

Today’s panel of witnesses will provide the committee with insights into the challenges facing small businesses and how we can best assist entrepreneurs to continue to stimulate our economy. Small businesses are on the cutting edge of the technology sector, generating 13 times more patents per employee than larger firms and are taking advantage of the tools that allow them to expand their business and keep America a global leader in innovation. Maintaining this role is vital to our economic prosperity and our global competitiveness.

Madam Chair, thank you again for holding this important hearing today. I yield back the balance of my time.

#

CONGRESSWOMAN YVETTE D. CLARKE

Full Committee Hearing entitled
“The Role of Small Business in Stimulating Economy.”

April 24, 2008

Thank you Madam Chair and Ranking Member Chabot. Many argue small business tax preferences are hard to economically justify. They allege that these preferences increase the return on investment at the expense of social welfare. But small businesses are a vital source of job creation, economic opportunity and technological innovation. Economic data indicates that small firms make a significant contribution to this country. Small firms generate a large share of the new domestic jobs created each year. So I appreciate all of your witness testimony today in order to overcome obstacles small businesses face during this challenging economic climate.

Written Statement for

Michael Hodgson

On Behalf of:

The National Association of Home Builders

To The

**United States House
Small Business Committee**

Hearing On

“Role of Small Business in Stimulating the Economy”

April 24, 2008

Introduction

Thank you for the opportunity to submit testimony on behalf of the National Association of Home Builders (NAHB), representing more than 250,000 members in the home building, remodeling, light commercial construction, and housing finance industry. My name is Mike Hodgson and I am the President of ConSol in Stockton, California. Although a small business, ConSol is one of the nation's largest, independent residential energy consulting firms and has been working for builders since 1981, providing a full range of services to improve quality control of energy-related features in new homes.

Generally speaking, the home building industry is dominated by small businesses, 60% of NAHB members build less than 25 homes per year and 88% have less than \$5 million in annual receipts. As Congress continues its work on passing critical housing stimulus legislation, there are a number of ways to include important energy efficiency and sustainability incentives that will have similar stimulative impacts on thousands of small businesses that comprise the majority of our nation's housing and related industries. Specifically, Congress should promote voluntary energy efficiency programs, extend expiring tax incentives for highly efficient new home construction, and provide incentives for the technology future of housing, i.e., green and sustainable residential construction.

NAHB's members are significantly impacted by the credit crunch and there is deep concern that the dislocations in the financing markets will increase the depth and length of the housing downturn. As so many businesses rely upon the strength of the housing industry, it is critical that Congress act now to restore this vital part of the economy and provide small businesses, which comprise the lion's share of the nation's economic engine, with incentives and support to help reverse this slowdown.

This statement provides background and context for the current crisis in the housing markets as well as some suggested solutions to address that crisis. Further, it explores an important evolutionary step in residential construction – energy efficient construction and green building, which will help address heightened concern with global climate change and represents a significant growth area for home building.

Housing Market Conditions

The U.S. housing market now is in the contraction phase of the most pronounced housing cycle since the Great Depression. This dramatic contraction has exacted a heavy toll on economic growth and employment during the past two years, and now has pushed the U.S. economy into recession according to NAHB macroeconomic analysis. The adverse economic impacts of the housing contraction involve not only sharp declines in home sales and housing production, but also depressing effects of falling home prices on household wealth and mortgage credit quality. These events have provoked an alarming surge in mortgage foreclosures that have cut into the homeownership rate. Further, events have seriously damaged financial institutions holding mortgage assets, as well as companies that provide mortgage credit enhancement.

The pronounced decline in mortgage credit quality first became evident in the subprime mortgage sector last year, and that disaster triggered a stampede toward credit quality in national and global credit markets. This process has essentially shut down or seriously damaged a wide range of securities markets, including major components of the mortgage securities markets in the U.S. The freezing-up of private securities markets, both here and abroad, has shifted credit demands to government-related securities markets and to depository institutions – resulting in higher loan volume and pressures on capital positions at the depositories. The banking system, in turn, has been aggressively tightening lending standards in order to control volume, maintain asset quality and shepherd capital.

With private securities markets in disarray and banks retrenching, a *bona fide* credit crunch is underway. This credit crunch actually appears to be worsening despite the concerted efforts of central banks here and abroad. The Federal Reserve has been easing monetary policy aggressively since last fall, and probably will do more in the near future. These actions have improved the functioning of short-term money markets, including the interbank markets, but the Fed has not been able to relieve strains in longer-term credit markets.

With the deterioration of housing demand, exacerbated by the credit crisis and the fear and uncertainty concerning future housing price declines, for-sale housing market inventories are at historic levels. For example, the new homes inventory stands at a 9.8 months supply. The record volume of vacant homes on the for-sale market inevitably will put persistent downward pressure on home prices for some time. These interrelated factors of inventories and home price decline are central to the outlook for the economy and the financial markets.

Continued downward pressure on home prices also further saps the quality of outstanding mortgage credit, making it even more difficult to refinance or restructure adjustable-rate mortgages that have encountered or are facing payment resets. These effects, in turn, will worsen the alarming upsurge in mortgage foreclosures; move even more homes onto the for-sale market; put even more downward pressure on house prices and mortgage quality; and stretch out the contraction in new housing production even further. This represents quite a feedback loop, with ominous potential consequences for the U.S. economy and the financial markets.

Some have argued that the best way to bring the housing market into balance is to permit housing prices to fall in an uncontrolled fashion over a short period of time. However, this path of adjustment would most likely cause substantial collateral damage to the economy, to financial markets and to America's homeowners. Policymakers should not take that risk. A second round of economic stimulus is urgently needed as a complement to monetary policy adjustments. This time, stimulus measures should be directed squarely at the housing sector—the sector that is at the root of the challenges facing the economy and the financial markets.

Implications for the Economy

With the deterioration of housing demand, exacerbated by the credit crisis and the fear and uncertainty concerning future housing price declines, for-sale housing market inventories are at historic levels. The record volume of vacant homes on the for-sale market inevitably will put persistent downward pressure on home prices for some time. If housing prices fall significantly,

as many economists expect, households spend less because they feel (and are) less wealthy. One key reason for reduced consumer spending is that housing wealth is the primary source of savings for most households. If housing prices fall, then homeowners' wealth decreases. As a result, households may decrease current consumption to offset the lost wealth.

According to a January 2007 report from the Congressional Budget Office (CBO), a 10 percent decline in housing prices from peak to trough – a conservative estimate of what many economists expect – would reduce consumption and ultimately subtract 0.4 to 2.2 percentage points from Gross Domestic Product (GDP) growth. Given that many economists expect meager growth in GDP this quarter, the CBO estimates indicate that falling housing prices can easily push the economy into recession. In dollar terms, the CBO report estimates that a 10 percent housing price decline would subtract \$55 to \$316 billion from GDP.

The contraction in the housing market also is having heavy direct effects on the national economy. In the fourth quarter of 2007, residential fixed investment (home building) subtracted 1.2 percentage points from real GDP growth. In January, when the entire economy lost 17,000 jobs, home building lost more than 28,000. Total homebuilding employment is down by 400,000 since the peak in February 2006, a decline of more than 11 percent, and further declines are inevitable during the months ahead. Furthermore, many home builders are now reporting substantial financial losses when only a few years ago they were generating jobs, providing local development and paying taxes.

NAHB Recommendations

Home Buyer Tax Credit

Two causal factors in the current housing downturn and the related credit crunch are declining house prices and excess inventory. These elements are equally central to the outlook for the broader economy and the financial markets. Policies that stimulate home purchases in the immediate future can pay huge dividends. The biggest bang for the buck most likely would be provided by a temporary homebuyer tax credit, such as the credit approved recently by the House Ways and Means Committee in the *Housing Assistance Tax Act of 2008*. Indeed, the recent revival of interest among prospective buyers suggests that temporary credits could stimulate a wave of home buying that could quickly reduce excess supply in housing markets and halt the dangerous erosion of house prices and mortgage credit quality. NAHB applauds the Congress for its efforts to create a homebuyer tax credit, and stand ready to work with Congress in crafting the most effective credit to help solve the current economic crisis.

Expand the Net Operating Loss Deduction Carryback

Home builders, like many businesses, are now reporting financial losses when a few years ago they were generating jobs, providing local development and paying taxes. For home builders large and small the importance of the ability to claim and carry back net operating losses (NOL) deductions to years when significant taxes were paid cannot be overstated. The inability to do so will result in the need to either increase high-cost borrowing or further liquidate land and homes, which will only compound the existing inventory problem. The additional supply of

homes and land on market for sale, of course, will put even more downward pressure on prices and further add to the housing crisis. Ultimately, the result of this will be more layoffs of workers and reduced development of communities.

Current law allows for a two-year carryback of NOLs, however, home builder losses began in 2006. Expanding the carryback of NOLs beyond two to years when significant taxes were paid provides financial resources to the home building sector as well as all businesses to weather the economic downturn. Further, this will help all businesses, including financial institutions and manufacturers, facing difficult economic decisions concerning employment. Finally, an expansion of the NOL carryback simply allows businesses to accelerate their claim of NOL deductions that under present law would be claimed in the future. The need for these deductions today is critical.

Expand the Mortgage Revenue Bond Program

The existing Mortgage Revenue Bond (MRB) program also offers a method of increasing housing demand. A special allocation of bonds to be used for either purchase or refinancing would be beneficial for housing. The MRB program allows state and local governments to issue tax-exempt debt that may be used to finance mortgages at below-market interest rates. Certain technical restrictions concerning the MRB program could also be made more flexible to enhance its use as an economic stimulus tool. These include the house price limits and the first-time home buyer requirement. Expanding the reach of the MRB program would allow it to have the largest effect, particularly for communities experiencing the possibility of a wave of foreclosures or an extreme excess of inventory. Such positive results will help reduce pressure on housing prices, thereby restoring financial institutions' confidence in the housing market and reducing the effects of the current credit crunch. NAHB thanks the House Ways and Means Committee in approving a temporary \$10 billion expansion of the MRB program the *Housing Assistance Tax Act of 2008*.

The Next Evolution in Residential Construction

NAHB members currently build about 80% of all new units in the United States and, "by 2010, green could make up about 10% or more of the housing market depending on the right mix of incentives and consumer education." According to the Partnership for Advancing Technology in Housing (PATH) and other government business surveys, the majority of builders of green homes and manufacturers of green building technologies are small businesses. This is a significant and important fact because housing comprises 16% of the U.S. GDP. The impact of housing on the economy of the United States is substantial, and by encouraging growth in green building, our nation's home builders have the potential to profoundly affect sustainability and conserve precious natural resources and our environment.

NAHB members are leaders in the green building movement and were active on this effort long before the recent media interest in climate change and global warming. NAHB has been working on green building alongside its 850+ state and local Home Builder Associations (HBAs) for nearly a decade, which is longer than many other green building advocates have even existed. In fact, NAHB will be hosting its 10th Annual National Green Building Conference in

New Orleans next month and has consistently been ahead of the curve in promoting and developing energy-efficient and environmentally-friendly construction techniques for the mainstream home builder.

Being Green is much more than a tankless water heater and a little extra insulation in the attic, it is a holistic approach to how the home exists on the land with the least impact, how conservatively it uses resources; and how it provides healthy, safe, and decent shelter to the resident. Simply put, building greener is building well. It means making intentional decisions that positively impact energy efficiency, resource conservation and indoor environmental quality throughout the entire design and construction process. Green means doing the right thing for the builder, the homeowner, and, most importantly, the environment.

The recent strength and growth of green building is due in large part to its voluntary nature, which provides builders and developers the flexibility that is essential for incorporating the principles of sustainable design in innovative ways to construct a home that is both environmentally sound and affordable to homebuyers. Green home building will continue to be an important component and because of the current flexibility in green building options, builders will be able to successfully adjust to the shifting market demand for greener homes.

NAHB Recommendations for Enhancing Green Building/Energy Efficiency

Extending Tax Incentives for New Energy-Efficient Homes

Perhaps the most important tool for promoting residential energy efficiency and sustainability is to utilize the nation's tax code. The Internal Revenue Code Section 45L New Energy Efficient Home Credit, which was enacted as part of the Energy Policy Act of 2005, is a key market incentive that shifts builders towards significant energy savings in new home construction. The program allows a \$2,000 tax credit to a home builder who constructs a qualified new energy-efficient home, certified to achieve a 50 percent reduction in energy usage, thereby adding a highly efficient home that will likely remain part of the nation's housing stock for 60 years or more.

Tax incentives are effective ways to promote energy efficiency because they combine the tax incentive with market-determined supply and demand for home construction. Other approaches, such as an artificially-imposed mandate, require government officials to sort through reports in order to enforce rules and verify compliance. Meanwhile, a tax incentive simply reduces the cost of construction above minimum building code requirements, i.e building highly energy-efficient homes, thereby encouraging that behavior. Further, with a tax credit, important production decisions are still reserved for builders, buyers and home owners. Consequently, a tax credit program costs little to operate and does not require expensive administrative oversight that is usually associated with a mandate.

NAHB has learned from its members that the credit is particularly beneficial to small home builders, who in many cases have the flexibility to react to marketplace preferences, such as the demand for highly efficient homes. The credit can be an effective means of developing

and maturing this market, which would yield long term benefits with respect to our nation's energy needs.

Unfortunately, the credit is set to expire at the end of this year. The limited window of applicability of the credit also limits its use. Home building is a lengthy process, and builders are unlikely to participate in a program that may end before the construction process is completed. Although the House recently passed H.R. 5351, and the Senate similar passed an amendment to its housing stimulus legislation that extends this credit, there is still no agreement between the chambers over the appropriate offsets. This political disagreement endangers the possibility of extending this credit this year. Unless Congress can end the political debate and extend this credit soon – with or without offsets – it will be a tremendous loss for my business and will eliminate the only federal incentive for efficiency in new homes.

Finally, Congress should also increase the dollar amount of the credit. As nearly everyone agrees that energy efficiency in buildings and homes is a major priority, so similarly Congress should tackle this priority by offering a more meaningful incentive to those that bear the most cost – i.e., builders. Achieving the 50% threshold required by statute can be an expensive proposition, especially for smaller builders. Home builders report that the increased construction cost required to meet the 45L requirement can dramatically exceed the \$2,000 tax credit. In conjunction with the required basis adjustment (which reduces the value of the credit to approximately \$1300), the credit is somewhat limited in its effect. In today's market, these costs cannot be transferred to homebuyers, therefore Congress must provide a way that will help builders ameliorate the expenses associated with achieving such high levels of code compliance.

National Green Building Standard

NAHB, in collaboration with the International Code Council (ICC), initiated a landmark effort in February 2007 to establish the first national consensus standard on residential green building for the United States that will be approved by the American National Standards Institute (ANSI). Normally, standards development processes can take a while to complete, given the extensive public input that requires full consideration. However, the need to develop appropriate strategies to address growing environmental challenges like climate change has motivated our industry to commit to a fast-tracked standards process because we believe that it simply cannot be put off any longer. This process is completed and the Standard will exist as the *only* consensus-based industry standard for residential green construction in the country.

As a national standard, ANSI requires consensus-based decision-making, opportunity for public comment, and other processes to help guarantee that the Standard is acceptable to all members of the home building industry, as well as to those who regulate them. This process involves full participation from interested stakeholders who volunteer to sit on a Consensus Committee, and who provide advice and counsel on how to build a green home, how to verify and certify its integrity, and how to continuously update the standard to ensure improvement and rigor. A membership roster of the official Consensus Committee of the National Green Building Standard is attached to this statement.

This membership roster includes the U.S. Green Building Council, the U.S. Environmental Protection Agency, the U.S. Department of Energy, numerous city and state housing officials, product manufacturers, insulation manufacturers, architects, and some of the nation's largest production home builders. Some of the guiding principles in this Standard include the following:

- **Lot Design, Preparation, and Development.** Resource-efficient site design and development practices help reduce the environmental impacts and improve the energy performance of new homes. Siting that saves trees, incorporates onsite storm water retention/infiltration features, and orients the home to maximize passive solar heating and cooling are essential elements used in planning a green home.
- **Resource Efficiency.** Most successful green homes start at the design phase, which includes the selection of materials to be used in its construction. Resource efficiency also means reducing job-site waste by developing construction waste management plans, which includes recycling, can reduce normal average construction waste by at least two-thirds, thus reducing the burden on landfill space. Lastly, performing life-cycle analysis (LCA) on building materials helps determine a more accurate impact on the environment, since some materials can be renewable, but very energy-intensive when considering their transport to job-sites. The LCA process involves a “cradle to grave” philosophy and covers how the material is recovered, the product manufacturing process, the home building process, the maintenance and operation, the home demolition, and product reuse, recycling, and disposal.
- **Energy Efficiency.** Energy consumption has profound impacts on our environment, from the mining of fossil fuels to the emissions of burning non-renewable energy sources. The impact of a home's energy use over time is a significant factor in how that home will impact the environment. Therefore, energy efficiency is heavily weighted in any green building program. The greatest results in energy efficiency come from a “whole systems” approach. Energy performance does not end with just increasing insulation, using renewable energy, or upgrading the HVAC equipment. Green homes must have a balance between these features and careful window placement, building envelope air sealing, duct sealing, and proper placement of air and vapor barriers from the foundation up to the attic. Once these features are incorporated into the green home, then it will truly be high-performing, energy efficient, less-expensive to operate, and more comfortable to live in than a conventionally-constructed home.
- **Water Conservation.** Implementing water conservation measures can reduce mean per capita water usage from 64 gallons per day to 45 gallons per day. Thus, green homes are especially welcome in areas affected by long- and short-term water supply issues. Green homes conserve water both inside and outside the home with more efficient water delivery systems, native and drought-resistant landscaping, and careful treatment of storm water and wastewater in the construction process. .
- **Indoor Environmental Quality.** Healthy indoor environments are another hallmark of green building. Following energy efficiency, the quality of a home's indoor air is often recognized as the most important feature of a green home. Although no official authoritative definition

exists of what healthy indoor air means, there are measures that green home builders can take to mitigate the effects of potential contaminants by controlling the source, diluting the source, or capturing some of the source through filtration.

- ***Operation, Maintenance, and Homeowner Education.*** Inadequate or improper maintenance of a green home can defeat the designer and builder's best efforts to create a resource-efficient home. Failing to change air filters regularly, or neglecting to use kitchen and bath exhaust fans in moist air, are very common mistakes most homeowners make. By giving homeowners a manual that explains proper operation and maintenance procedures, includes information on alternatives to toxic cleaning substances and lawn and garden chemicals, and directs them to water-saving practices, a green home builder can help assure that the home functions as carefully as it was constructed, in an environmentally-responsible manner.

Encompassing single- and multi-family construction, remodeling, and land development, the National Green Building Standard demonstrates the level of urgency with which the housing industry is approaching and addressing energy efficiency and sustainability issues. I am proud of the continued effort of the home building community to create the first comprehensive residential green construction standard that not only informs builders on how to build green, but also educates homeowners on how to operate their home in an energy- and resource-efficient manner. What has been developed is a standard that is flexible enough to adjust to the various resource and energy concerns in the varying climate zones around the country, while at the same time encouraging continued innovation in green technology that is already dramatically shifting the market. Green building should continue to exist in its most flexible form.

National Green Building Program

In order to address climate change issues, NAHB is proactively contributing to efforts to reduce greenhouse gas emissions by establishing a national green building program. With this charge, NAHB members stepped up their national campaign to inform the public about the innumerable benefits of green building and sustainability in housing design by launching the National Green Building Program in February 2008 at the International Builders Show. In this program, there is a substantial effort to market the green building standard as an effective alternative, and to monitor state and local legislative and regulatory activity to ensure builders retain the right to choose from the myriad of green building options and are not restricted to the sole use of one branded product or rating system. Viable green alternatives exist in the market today in both residential and commercial construction.

The NAHB National Green Building Program will help home builders push the green building envelope and encourage innovation in green construction. Included in this effort are numerous promotional and educational tools for small businesses affiliated with green building. At a time when the challenge of climate change is moving people to live, work, and function in a more environmentally responsible way, we need to have options to force green building technology to its limit. NAHB's National Green Building Program will provide those options for all builders and, most importantly, will seek to inform current homeowners about how they can improve existing homes with green remodeling, making home occupation and maintenance just as efficient as new home construction.

Conclusion

I appreciate the opportunity to testify on behalf of the 235,000 members of NAHB regarding the serious issues related to small businesses impacted by the credit crunch and economic downturn. I also thank the Committee for the opportunity to discuss the emerging trends in energy efficiency and green building for residential construction. This is an exciting area for our industry. NAHB looks forward to working with the Committee, and the Congress, to develop effective policy responses to help small businesses weather the current housing crisis and enable the continued growth of green building in residential construction.

Smaller businesses in the housing industry are at the cutting edge of pushing efficiency and sustainability technology in home construction. As a small business working with the housing industry to bring more efficiency and sustainability online, I urge you to seize this golden opportunity to restore confidence to the housing market, promote home buying and further growth in residential energy efficiency, and to extend and implement important tax incentives supporting technology advancement in green residential construction. On behalf of NAHB, I look forward to being a partner with the government in that effort, both now and in the future.



Testimony of

Paul Misener
Vice President, Global Public Policy
Amazon.com

Before the

Committee on Small Business
United States House of Representatives

Hearing on

"The Role of Small Businesses in Stimulating the Economy"

April 24, 2008

Good morning, Chairwoman Velázquez, Ranking Member Chabot, and members of the Committee. My name is Paul Misener, and I am Amazon.com's Vice President for Global Public Policy. Thank you for inviting me to testify on this important topic; I am delighted to respond to your specific requests to know how Amazon.com drives the growth of small firms and about the effect that small companies have on the economy.

Madam Chairwoman, I would like to offer you and your Committee three essential observations this morning. First, the online economy has evolved dramatically since its inception in the early 1990s, bringing unforeseen benefits to small businesses. Second, these benefits arise not only from the new markets that can be reached online, but also from the myriad retailing services now available online to small businesses by Amazon.com and others. And, third, the demographics of today's online economy can be

surprising, particularly with respect to the share of the online economy held by small businesses. With these observations in view, we may safely conclude that the online marketplace is a very important avenue through which small businesses may help stimulate the overall economy.

Before I describe the details of these three observations, Madam Chairwoman, please let me make a note on terminology. Throughout my testimony today I will refer to “small businesses,” which I mean to include low sales volume sole proprietorships, partnerships, and corporations, all of which traditionally are considered “small businesses,” as well as individuals making occasional sales outside of a defined or separate business. The key unifying characteristic of small businesses online is not their legal structure but, rather, that they sell at relatively low revenue volume.

EVOLUTION OF THE ONLINE ECONOMY

Madam Chairwoman, the Internet is a great enabler of small business. In its early days, the online economy was a haven for innovative, technically-savvy small businesses, and today it has evolved to become a crucial sales channel for all kinds of small businesses, not just those with technical expertise.

In the mid-1990s, Amazon.com, Google, eBay, Yahoo!, and other currently well-known Internet brands were obscure small businesses. They had in common the technical skills that enabled them to provide content-based services using the Internet’s physical infrastructure and a new online software application called the World Wide Web. It’s no accident that the founders of these companies were engineers. They not only needed a business vision, they had to take a technically complex foundation – the

Web – and turn it into something useful to non-technical people. These small business owners overcame the technical challenges of putting up and running a website, attracting consumer traffic to the site and, in a variety of ways, facilitating retail transactions. At the time, none of this was easy.

But, as these small businesses grew into the service providers they are today, they vastly simplified the task of getting small sellers online. Indeed, these companies now provide services so that today's small businesses need not be technically savvy to make good use of the Internet. Today's small businesses online need not understand how the underlying Internet technology works nor even directly deal with it.

Several different ecommerce business models now coexist and vigorously compete on the Web. One model is traditional retail; most often by so-called "clicks and mortar" companies that have both a physical store and a retail website. There also are a "pure play" online traditional retailers, like Amazon.com's original business.

Another important business model is "search" retail, whereby companies like Google, Yahoo!, Microsoft's MSN, and AOL provide online paths, preferential access, and advertising to thousands of retail businesses.

A third key model is "platform" retail, whereby large companies such as Amazon.com and eBay provide ecommerce services to other companies, both large and small. Online transaction services, such as Amazon Payments, Google Checkout, eBay's PayPal, and Yahoo! Wallet are also examples. Through Amazon.com's platform, over a million sellers – most of them small businesses and individuals – now have easy access to over 75 million active consumer accounts worldwide.

In sum, the online economy has evolved dramatically since its inception in the 1990s, bringing unforeseen market reach and other benefits to small businesses, which no longer need technical expertise to sell on the Internet.

SERVICES AVAILABLE ONLINE

The benefits of the online economy arise not only from the new markets that can be reached online, but also from the myriad retailing services now available online from Amazon.com and others.

You have asked for an indication of how my company drives the growth of small firms. Simply put, Amazon.com strives to provide our small business seller customers a wide variety of retail tools so they can concentrate on the areas of their business they know and like best.

For example, with "Product Ads on Amazon," small businesses can easily and efficiently advertise on Amazon.com the specific products available on their own websites. For small businesses that don't have their own websites, we offer several types of services like "Selling on Amazon," which allows small businesses to post their inventory on our website without any individual item listing fees. When an item sells, we handle the transaction including credit card processing and, very importantly, payment fraud protection, and the small business simply ships the item to the buyer.

Through our "WebStore by Amazon" service, we even create and run complete ecommerce websites for small businesses who may not have the time or interest to do it themselves. One delicious example is the Jelly Belly Outlet, www.jellybellyoutlet.com, the famous purveyor of gourmet jelly beans.

And, whether or not a small business has a website, we can provide the global reach of our physical distribution network through our “Fulfillment by Amazon” service. Small businesses can simply send us their inventory, which we store in our warehouses and, then, when the small business sells an item – on their website, on our website, by phone, or even in person – we pick it out of our warehouse shelves, pack it safely, and ship it to the buyer. In this way, we spare small businesses the hassle of inventory management and shipping and provide their customers a reliable fulfillment experience. The company named JumpSnap, at www.jumpsnap.com, which sells the “Ropeless Jump Rope” and other exercise supplies, is a fit example of a small business using Fulfillment by Amazon.

Within the past few years, we also have begun to provide advanced computer functions, such as Amazon Simple Storage Service, which allows small businesses to avoid investing in large digital storage devices that tend to be expensive and time-consuming to maintain. We also provide computer database and computation services.

As for small businesses with media products, we make additional services available. Amazon employs new business models and technologies that can help meet consumer demand for books, music, and video in the “long tail” of the market and, in doing so, provide new outlets for individual creators and small publishing businesses. Traditionally, the only way to begin to serve the media content market was to make significant up-front investments to produce and ship large numbers of physical products to many brick and mortar stores, and hope that these products eventually would sell. This is a risky approach, of course, and, even if a project succeeds, it requires significant up-front investments in production and shipping.

One simple way creators and small publishers can use our retail platform to sell into the long tail of the market for books, music CDs, and DVDs is through our “Amazon Advantage” retail platform program in which they need to print or manufacture then ship to us only a few books or discs. Small publishers then can offer these few copies to the entire Amazon.com base of more than 75 million active customers. Clearly, the ratio of potential consumers to the number of products that must be produced to enter the market is far lower on Amazon.com than through traditional publication channels that end in brick and mortar stores.

Another, even lower-cost and lower-risk way for individual creators and small publishers to enter the market is through our “on demand” manufacturing services, which are built on two innovative new technologies: print on demand and disc on demand. As its name suggests, print on demand actually allows us to produce a paperback or hardcover physical book *after* a customer orders it, and have it delivered within days. Likewise, disc on demand allows us to manufacture and deliver music CDs or video DVDs within days of a customer order.

The up-front costs to small publishers of such on-demand books and discs are limited only to providing Amazon the digital files and some bibliographic information that we post on our website’s description of the product. We then take care of sales, manufacturing, shipping, and customer service. Amazon even offers print layout and cover design. Small publishers thus have no need for high up-front investments, additional manufacturing infrastructure, predictive printing, or inventory management.

Digital delivery is, of course, another low investment way to get media products to consumers. We have rapidly growing digital music and video distribution services –

Testimony of Paul Misener
April 24, 2008
Page 7

Amazon MP3 and Amazon Unbox – that allow individual creators and small publishers to sell their audio and video works online without ever reducing them to physical form. Moreover, as you may have heard, we also have introduced the Amazon Kindle for authors and publishers of books.

The Kindle is a portable reading device that can wirelessly download books, blogs, newspapers, and magazines. Authors and small publishers easily can attract an audience and distribute their works without the up-front investments in printing and physical distribution that often act as significant barriers to entry.

We designed Kindle to provide an exceptional reading experience. Thanks to “electronic paper,” a revolutionary new display technology, reading Kindle’s screen is as sharp and natural as reading ink on paper, with nothing like the strain and glare of a computer screen. We wanted Kindle to be completely mobile and simple to use for everyone, so we made it wireless; no personal computer is needed. Using the same radio network as advanced cell phones, we deliver written content without the need to find a “hotspot,” and without confusing wireless service plans, yearly contracts, or monthly bills. Newspaper subscriptions are delivered automatically and wirelessly each morning, and most magazines arrive before they hit newsstands.

To reiterate, individual authors and small publishers are able to publish on Kindle without the usual barriers to entry. On my own Kindle, I have several books from individual authors and publishers who don’t need to have any physical books in print.

In sum, Madam Chairwoman, there are myriad online and online-related selling services available to small businesses today, and Amazon.com strives to be the most customer-centric provider of such services.

DEMOGRAPHICS OF TODAY'S ONLINE ECONOMY

The demographics of today's online economy can be surprising, particularly with respect to the share of the online economy held by small businesses. You have asked for about the effect that small companies have on the economy. In response, I respectfully draw to your attention to two important observations.

The first key observation is that, as we said from the very start of our company, online retail will not entirely supplant physical stores. And we've been proven right. Even after more than a decade of ecommerce, and despite the wild predictions of the late 1990s, still well over 90% of retail sales remain *offline*. There are good reasons, of course, including that physical stores inform our senses of touch and smell and provide opportunities for socializing in person. Nonetheless, *online* retail has been an area of continuing growth, including for small businesses.

The second key observation is that the share of the online economy held by small businesses is surprisingly large because it is systematically undercounted in surveys, including by the U.S. Census. One need only look at rosters of the top online sellers to understand how small business sales are systematically missed. For example, the *Internet Retailer*, an important trade publication, annually publishes a list of the top few hundred retailers by revenues. Amazon.com is first on the *Internet Retailer*'s 2007 Top 500 list, which cites our nearly \$11 billion in 2006 revenue. Yet, not all of that revenue is from sales by Amazon's retail business. An important and growing part of our business is from service fees on sales made with our help by smaller sellers. Only these fees are included in the revenue total, not the actual value of the sales.

Moreover, pure platform and search service providers like eBay and Google don't even make the roster, in spite of the fact that, in the same year (2006) that Amazon posted less than \$11 billion in revenues, eBay transacted a whopping \$52 billion through its site. That is, little if any of the \$52 billion of online sales through eBay are captured by the *Internet Retailer*'s assessment of ecommerce. Also missing are other billions of dollars transacted by small businesses online with the help of service providers such as Google, Yahoo!, Microsoft, and AOL.

U.S. Government surveys raise similar concerns. The U.S. Census Bureau's quarterly "eStats" reports measure the size of electronic commerce in part from the quarterly reporting of publicly traded firms with revenues measured in the millions of dollars. Obviously, most small businesses online would be missed under these criteria. Although every five years the Bureau is able to supplement these statistics with a deeper analysis of smaller companies, it still may go down only to those with about \$1 million in revenue per year. Therefore, the government's ability to capture sales information from activities by small businesses online is very limited.

The upshot of this significant undercounting of sales by small businesses is that the proportion of ecommerce by small business is greatly underestimated; the sales by sellers with annual revenues on the order of a hundred thousand dollars likely could account for as much as a quarter of all consumer ecommerce in the U.S. and, of course, assuming a higher revenue threshold would reveal an even greater fraction of sales by sellers considered small businesses. Obviously, the surprisingly high portion of ecommerce conducted by small businesses means that such businesses can have a greater effect on the online economy than may be generally assumed.

CONCLUSION

In conclusion, Madam Chairwoman, the Internet is a great enabler of small business, not just for companies like Amazon.com, which not long ago was a small business itself, but also for today's small businesses, which need not be technically savvy to participate fully in ecommerce. The online economy has evolved dramatically since its inception in the early 1990s, bringing unforeseen benefits to small businesses. These benefits arise not only from the new markets that can be reached online, but also from the myriad services now available online to small businesses by Amazon.com and other providers. Lastly, the demographics of today's online economy can be surprising, particularly with respect to the large share of the online economy held by small businesses. With these observations in view, we may safely conclude that the online marketplace is a very important avenue through which small businesses may help stimulate the economy.

Thank you again for inviting me to testify, I look forward to your questions.

* * * * *

Google™

Testimony of David Fischer
 Vice President, Global Online Sales & Operations, Google Inc.
 House Small Business Committee
 "The Role of Small Business in Stimulating the Economy"
 April 24, 2008

Chairwoman Velázquez, Ranking Member Chabot, Members of the Committee.

Thank you for inviting me to discuss the role of small businesses in stimulating the economy and, more specifically, Google's role in supporting the success of our nation's entrepreneurs. My name is David Fischer, and I'm the Vice President of Global Online Sales and Operations at Google where I manage our online advertising business.

It's a great pleasure to be here to testify about American small businesses, which constitute one of the most important and dynamic facets of our economy, and are essential partners to Google.

As I'll explain today, Google is committed to helping small businesses prosper on the Internet. Indeed, much of Google's success is predicated on the success of our small business customers and partners, and we place tremendous value on our relationship with these entrepreneurs. For many of them, their success is fundamentally linked to the continuing growth of the Internet.

Today I want to share how these businesses are using the Internet to find customers more efficiently, and about an entirely new and innovative part of the small business community that is generating revenue through advertising – often in partnership with Google.

We believe that advertising can – and should – provide relevant information to users. In fact, we think that ads should be just as useful to searchers as the search results themselves. This is the driving philosophy behind our core advertising business, which accounts for nearly all of Google's revenue.

Today we have hundreds of thousand of advertisers using our advertising platform to reach customers and hundreds of thousands of website publishers generating revenue by placing our ads on their pages. A significant majority of these partners are small businesses, the success of which depends on Internet advertising to attract customers and to generate revenue. It is in part through advertising platforms like Google's that even the smallest businesses can compete – and succeed – in the global marketplace.

I would like to cover three main points in my testimony this morning:

First, I'll explain how online advertising enables small businesses to connect efficiently and cost-effectively with new customers, often in their own communities.

Second, I'll explore how advertising partnerships provide new sources of revenue for small websites, sustaining a vibrant online market of niche content and commercial activity.

And last, I'll offer some comments on future trends in the Internet economy and opportunities that these trends present for small businesses.

Connecting small business to new customers

Small businesses are increasingly going online to better connect with both existing and prospective customers. This makes sense, given the amount of browsing and shopping that consumers do online. According to the National Retail Federation, over 92 percent of adults regularly or occasionally research products online before buying them in a store.

Online advertising enables small businesses to affordably and efficiently find their customers, whether it's a local plumber reaching a new customer down the block, or a niche antique dealer connecting with a collector overseas. Small businesses are using Google's AdWords advertising program as a sort of matchmaking service for new customers they might otherwise not reach.

Here's how it works: Through a simple online interface, businesses create short text ads for their products and services and choose keywords associated with their products or services. Advertisers then place bids indicating how much they are willing to pay if a user clicks on their ads. When a user searches on a keyword relevant to an advertiser's product or service, the advertiser's text ad appears above or to the right of the search results, which are generated by our proprietary algorithm. For example, when typing the word "flowers" into the search box, relevant search results will appear, and these search results will be accompanied by advertisements on the right side of the page from local and national florists.

Why do small businesses choose to advertise this way? We have found that small businesses use our advertising system to compete effectively with much larger organizations, and they do so affordably and efficiently. This is because an advertiser can set up an account with Google for just five dollars and then decide the maximum amount of money it wishes to spend on advertising. In fact, the advertiser can even change its daily budget on the fly, so it's never locked into a certain spending amount. Also, advertisers typically pay us only when someone actually clicks on their ads, and they often use free tools offered by Google that help them track the return on investment of every dollar they spend with us.

When you compare AdWords advertising to a highway billboard for example, there's no doubt that search advertising allows small businesses to more efficiently find customers who are directly interested in what they are selling and to manage their advertising budgets more effectively.

Here's one example of a successful small business that advertises through Google:

Bulb America, a Brooklyn, New York-based company, got started in 1998 with two employees selling both lighting fixtures for use in theaters, nightclubs, and production studios, and energy saving bulbs for the home. Bulb America has grown to over 25 employees with \$6.5 million in total sales in 2007. This growth has been driven largely by the company's website. Bulb America created its online store in 2003 and began using Google's advertising tools in May of 2004 to reach

customers in and outside of New York, and increase traffic to the Bulb America Web site. Today, the company attributes about 65 percent of its sales to Google advertising.

Madam Chair, Bulb America is just one of thousands of businesses in your district, and across the U.S., that are finding new sources of revenue through our advertising program.

I'll take a moment to give you a second example, the story of one of our AdWords customers based in Cincinnati, Ohio:

Swapalease.com is a 26-person operation owned by Richard and Ron Joseph that offers an online marketplace for transferring car leases. When the brothers started the business in 2000, they tried more traditional automotive marketing channels like billboards and print advertising, but the expense of those media and the difficulty of measuring their effectiveness made the Josephs wary to use the same approach in other markets. Swapalease.com signed up for AdWords in 2002. The company discovered it could target customers throughout the U.S. and Canada affordably and with significantly more granularity by using keywords focused on makes and models of cars.

Today, Swapalease allocates roughly 50 percent of its marketing budget to Google search advertising. According to Scot Hall, executive vice president of operations for Swapalease, "Anyone with an Internet connection can find our website. It's like having a billboard in every major city – exactly what we couldn't accomplish offline. Over the past three years, we've experienced year-on-year growth of at least 25 percent. Our AdWords activities have been critical in the development of our business."

These stories underscore the transformative power of the Internet as a medium for empowering small business advertisers.

AdWords is also helping small businesses connect with local customers, whether their business operates primarily online or off. Finding information about local services is a major reason people go online. In fact, a recent survey conducted by WebVisible and Nielsen reports that 74 percent of respondents stated that they would turn to a search engine to find information on local products and services. In response, we've developed innovative customization tools that enable advertisers to find these customers by targeting their campaigns to specific geographic locations, certain languages, or even searches conducted at certain times of the day. We also help local businesses easily create a website so that when someone searches for them, they can be found on Google.com and on Google Maps.

One of our Harlem, New York-based advertisers, Grandma's Secrets, has used our advertising tools to gain customers in the region where it delivers baked goods. A minority-owned business, Grandma's Secrets was started in 2001 when Regina Fagan built a website to capitalize on the love for baking she developed as a young child. By targeting her Google advertisements to the New York area, Regina has been able to turn a monthly Google advertising budget of \$25 into \$4,000 a month in revenue. This revenue helped Regina purchase her first home and fulfill a lifelong dream by taking her daughter to Paris.

I cannot begin to tell you the amount of personal and professional satisfaction that I and my colleagues at Google get from success stories like Regina's. They have taught me that small businesses, given a worldwide advertising platform, flexibility in how and where they advertise, and

the ability to target advertising to the right customers can succeed on the Internet through advertising in ways we've never seen before.

Finding new revenue opportunities for web publishers

The web isn't just helping small businesses find customers more efficiently. It's also helping directly fund a whole new breed of online entrepreneurs.

Here's how Google's helping to make that happen: In 2003, we extended the reach of our advertising program through a new service called AdSense. Moving beyond just selling ads alongside Google search results, we started paying owners of websites to let us place ads on their pages, providing rich revenue opportunities for all parties.

Our AdSense technology analyzes the content of a partner's web page to determine which advertisements are most relevant to the content on the page. It then delivers those relevant ads to the site. Every time a user clicks on one of those ads, Google shares a majority of the revenue we generate from the advertiser with the website operator.

Our business model enables entrepreneurs, educators, bloggers, and many others to generate revenue by sharing their expertise and opinions with the world. In many cases, these individuals are able to dedicate themselves full-time to their publications because of the support they receive from our advertising programs; they survive, and often thrive, on AdSense alone. Like our AdWords advertising product, AdSense is a self-managed program, allowing even the smallest of web publishers to participate in this powerful new revenue model.

In 2007, we paid out \$4.5 billion to our partners, hundreds of thousands of which are small businesses and entrepreneurs. What does this mean for American small businesses? Let's look at a couple of particular regions as examples. In the 12th district of New York alone, we paid out more than \$51.2 million to more than 6,000 AdSense partners in 2007. In the first district of Ohio, we shared almost \$1.6 million with approximately 2,000 partners last year.

Askthebuilder.com is just one example of an AdSense small business success story. It's a one-person website based in Cincinnati, Ohio, where newspaper columnist Tim Carter delivers practical tips, in-depth how-to's, and product information for handymen and handywomen across the country. In April 2004, Carter added AdSense to his website and immediately experienced a jump in revenue of 400 percent. Realizing that this relatively small change in advertising strategy had a big impact on revenues, Carter set out to fine-tune his AdSense program to maximize his cash flow. Today, Tim's Askthebuilder.com AdSense revenue averages \$1,400 a day and is growing.

Tim Carter's business is just one of thousands of dynamic online businesses that are leveraging online advertising to create new economic opportunities and flexibility. From a retired "Gray Googler" in Florida who runs an online business that allows her to earn more than her social security and pension payments combined, to the couple in an Atlanta suburb who turned their hobby website with cooking recipes into a revenue-generating business, we continue to see a tremendous number of small business success stories built on AdSense. We're very pleased to help support this proliferation of online commercial activity, robust and diverse speech, and entrepreneurial spirit.

Future Trends and Opportunities for Small Businesses

I'd like to conclude with a few thoughts about the future trends we see emerging in the Internet marketplace and the opportunities these developments present for small businesses.

The "Long Tail"

I've spent much of my time talking today about small advertisers and web publishers. As I've suggested, the vast majority of our advertising customers and partners hosting our ads are not Fortune 500 companies, but small firms creating niche products for specific audiences.

This has to do with a term coined by *Wired* Magazine's Chris Anderson – the "long tail." That's a reference to a downward-sloping demand curve for goods, where the head of the curve reflects the most widely popular goods, such as a blockbuster movie, and the tail end of the curve, which reflects less popular niche products such as an obscure art film, extends out a very long way.

There are millions of small businesses, millions of website publishers, and billions of people interacting on the long tail around products and services catering to individual tastes and personalities. And the economic potential in this long tail is driving some of the most successful and innovative businesses online today.

An important focus for Google is enabling our users' activity in this long tail, whether it's providing an answer to the most obscure search query or providing a platform like YouTube for sharing family videos. In the case of our advertising tools, we're lowering the barriers to entry for small firms to market their products or to generate revenue for their websites, and then matching them up with users who are interested in what they have to say or sell.

And we're developing a host of other innovative technologies that enable small businesses to thrive. While it is not the focus of my remarks today, I should mention our recent launch of a new set of collaboration tools called Google Apps that provides businesses with free tools such as email and spreadsheets.

We believe that the continued growth of small businesses – as well as economic activity in general – is dependent on fostering activity among the millions of individual users and companies who make up the vibrant online business community that exists today. And we also believe that the proliferation of small businesses in the long tail is critical to the continuing success of the Internet and the web as platforms for speech, commerce, and democratic participation. As the Committee continues its work as a champion of small business, I would encourage you to consider how new laws, regulations, and public policy initiatives impact these important trends.

Openness

I'd like to make a final point about the importance to small businesses of preserving the Internet as an open platform. Today, any aspiring entrepreneur with a few dollars and a good idea can launch a new business and find new customers and revenue online. Just a decade ago, our founders were graduate students in computer science at Stanford University when they launched their small business, a new approach to searching the Internet. They started building technology in a dorm room – the company's first data center – to analyze the links that connect web pages.

A free and competitive online economy that's friendly to innovation enabled the success of Google's search engine. An open network did not require the new entrants to seek permission from gatekeepers, and open standards allowed for robust interoperability between applications and ideas.

Preserving this openness online is critical to ensuring the success of a new generation of small businesses. As policymakers interested in promoting and fostering small business, I urge you to consider the openness of the Internet as a guiding principle in your legislative work, and as a critical component to ensuring the continuing success of America's small businesses.

Conclusion

Chairwoman Velázquez, Ranking Member Chabot, and Members of the Committee, thank you for the opportunity to testify today. As we celebrate Small Business Week in Washington and the contributions of these firms to the U.S. economy, I appreciate the occasion to share Google's efforts to help drive the continued success of America's small businesses and to create new revenue opportunities and growth for small business on the Internet.

We look forward to continuing our partnerships with these businesses, and to answering any questions you might have about our efforts. Thank you.

* * *



Introduction

Chairwoman Velazquez and members of the Committee, thank you for inviting me to address this committee and for the opportunity to talk with you about "The Role of Small Businesses in Stimulating the Economy."

My name is Dennis Ceru, and I am an Adjunct Professor of Entrepreneurship at Babson College where I teach MBA courses in entrepreneurship and business strategy. I have over 25 years of experience delivering successful business and technology solutions through leadership and management positions in the high-tech, financial services, and healthcare fields.

The information that I will share with you today is derived in part from the research conducted by Babson College, The Global Entrepreneurship Monitor as well as my own perspectives from my work with entrepreneurship and small, growing and large companies.

Babson College

Located in Wellesley, Massachusetts; Babson College is recognized internationally for its entrepreneurial leadership in a changing global environment. Babson grants BS, MS and MBA degrees. Babson programs are accredited by the AACSB International—The Association to Advance Collegiate Schools of Business, and the New England Association of Schools and Colleges.

What is GEM?

Initiated in 1999 as a joint venture of Babson College and London Business School, the Global Entrepreneurship Monitor (GEM) project is the largest ongoing study of entrepreneurial dynamics in the world. Over the years national teams from over 60 countries and more than 65 universities world-wide have contributed to the project.

GEM is a major research project aimed at describing and analyzing entrepreneurial processes within a wide range of countries. In particular, GEM focuses on three main objectives:

- To measure differences in the level of entrepreneurial activity between countries
- To uncover factors determining the levels of entrepreneurial activity
- To identify policies that may enhance the level of entrepreneurial activity

GEM data provides information on the innovativeness, competitiveness and sector distributions of nascent entrepreneurs, thereby allowing scholars, business leaders and policy makers to study the characteristics of the entrepreneurial landscape of various countries.

Entrepreneurship is important at both the individual and the national level. When entrepreneurs fail to develop their full economic potential, the broader economy suffers. A better understanding of the potential contribution of entrepreneurs to the business landscape will allow the design of more satisfactory programs and or regulation aimed at increasing the incidence and impact of entrepreneurship to the economy:

UNITED STATES – 2007

MAIN CHARACTERISTICS OF ENTREPRENEURIAL ACTIVITY

The level of early-stage entrepreneurial activity in the United States for the year 2007 is at 9.6%; a combination of nascent entrepreneurs (6.5%) and new business owners (3.4%). The overall level of new and established businesses is at 8.4%

There are gender differences in early-stage entrepreneurship in the United States with 62.2% of the early-stage entrepreneurs being male and 37.8% female. Of these, the majority identify an opportunity (80.3% of males & 84.8% of the females) rather than a necessity motive for their entrepreneurial activity.

Early-stage entrepreneurs in the United States believe their businesses have high potential with 22.0% expecting to create more than 10 jobs and over 50% growth in 5 years compared to only 7.1% of established business owners.

DEVELOPMENT OF ENTREPRENEURIAL ACTIVITY

Over 49.2% of early-stage companies plan to offer products that are new to some customers contrasting with only 31.2% of established business owners making this claim. More than 37.0% of early-stage ventures will use the very latest technology in their business as compared to 10.9% of established businesses.

By age group, more early-stage entrepreneurs in the United States are under 34 years old (41.6%) than established business owners where the most active group (33.1%) are over 45 years old. At least 61.8% of these early-stage entrepreneurs have at least some college education, with 51.7% having at least a college degree.

UNIQUE NATIONAL CHARACTERISTICS

Early-stage entrepreneurial activity in the United States is generally within the Consumer-oriented services sector (42.1%) with the Business-oriented services sector (34.8%) close behind followed by the Transforming sector (21.2%). There is little early-stage activity in the Extractive sector (3.7%). Most of these early-stage companies (63.3%) expect at least some of their customers to be outside the United States, and 12.4% expect a quarter or more of their customers to be outside the country. Experts in entrepreneurship overwhelmingly believe that there is sufficient equity funding (75.5%), debt funding (74.6%), and private funding (80.0%) for new and growing firms.

Government support for entrepreneurship is believed to be stronger at the local level (55%) than at the national level (45%).

CURRENT ISSUES

The slump in the housing market is causing distress in the banking and home building industries. Many small businesses and nascent entrepreneurs will be affected if the slump in the home building industry is prolonged; however the Federal Reserve is responding with a substantial cut in the interest rate.

Venture capital investments continue to grow with a 14% year-to-year increase in the annual amount invested portfolio companies in 2006 followed by an 11% increase in the first six months of 2007.

Proposed tax legislation currently under consideration by Congress would change the treatment of venture capitalists' profits from capital gains to ordinary income, affecting early-stage companies that represent the highest investment risk, but that also create the most jobs and opportunities for the American economy.

KEY INDICATORS

Nascent 6.5% Entrepreneurs

New Firm 3.4% Entrepreneurship

Established 5.0% Business Owners

Overall Percentage of Early-Stage Activity

Opportunity-based 83%

Necessity-based 16%

Male entrepreneurs 62%

Female 38% Entrepreneurs www.gemconsortium.org www.babson.edu

BACKGROUND

What is GEM?

Initiated in 1999 as a joint venture of Babson College and London Business School, the Global Entrepreneurship Monitor (GEM) project is the largest ongoing study of entrepreneurial dynamics in the world. Over the years national teams from over 60 countries and more than 65 universities world-wide have contributed to the project. A GEM planning meeting is held in January of each year where 200+ scholars from the various national teams collaborate with the coordination team in the collection of the data and the development of the project. The January 2008 meeting was held at Babson College. GEM is a major research project aimed at describing and analyzing entrepreneurial processes within a wide range of countries. In particular, GEM focuses on three main objectives:

- To measure differences in the level of entrepreneurial activity between countries
- To uncover factors determining the levels of entrepreneurial activity
- To identify policies that may enhance the level of entrepreneurial activity

GEM data provides information on the innovativeness, competitiveness and sectoral distributions of nascent entrepreneurs, thereby allowing scholars to study the characteristics of the entrepreneurial landscape of various countries.

Is GEM relevant for policy?

Because of its scale and scope, as well as its academic rigor, GEM has already had significant policy impact in various countries and international organizations.

GEM data and analysis have been the catalyst for change (i.e., *Finland Entrepreneurship Project (2000)*, and *Ireland Project on Women (2005)*)

GEM is accepted and well known as a Key Monitoring Instrument in well established policy arenas (i.e., *UK Competitiveness Council, Singapore and Spain Governments, Directory for European Enlargement, UN African Investment Advisory, Izdihar-Iraq USAID*)

GEM is routinely quoted in policy papers (i.e., *EU Green Paper and Action Plan, UK Treasury Competitiveness Report, Report by the Chancellor of the Exchequer*)

It takes a few years for a project of this size to stabilize. GEM is still very young. We expect its relevance to increase even further in the next few years. Now in its 10th year, the GEM project is recognized as one of the leading ongoing source of knowledge on entrepreneurial activity in the world.

Why is GEM important?

Important discoveries do not happen out of the blue in someone's head. Like in any scientific effort, important discoveries emerge as the result of long term research programs. GEM is the largest and most developed research program on entrepreneurship in the world. Entrepreneurship matters for growth and development. GEM is important because entrepreneurship is important and GEM has the potential to make us discover important things about entrepreneurship. www.gemconsortium.org www.babson.edu

GEM Data Collection: The Adult Population Survey

GEM takes a broad view of entrepreneurship and focuses on the role played by individuals in the entrepreneurial process. Unlike most entrepreneurship data sets that measure newer and smaller firms, GEM studies the behavior of *individuals* with respect to starting and managing a business. Furthermore, GEM views entrepreneurship as a process and considers people in entrepreneurial activity in different phases; from the very early phase when the business is in gestation to the established phase and possibly discontinuation of the business. A key GEM indicator is the prevalence rate of early-stage entrepreneurial activity (also known as the TEA index), represented by the shaded box in the figure below.

Potential entrepreneur: knowledge and skills Nascent entrepreneur: Involved in setting up a business Owner-manager of a young business (up to 3.5 years old) Owner-manager of an established business (more than 3.5 years old) **Total early-stage Entrepreneurial Activity (TEA) Conception Firm birth Persistence**

Within this context, GEM provides an umbrella under which a wide variety of entrepreneurial characteristics, such as motivations, innovativeness, competitiveness, and high-growth aspirations, can be systematically and rigorously studied.

In high-income countries, as per capita income increases and more opportunities for entrepreneurship may arise, the prevalence rate of early-stage entrepreneurship tends to increase. However, cultural, demographic, and institutional influences also shape the picture. For instance, many EU-countries tend to exhibit similar prevalence rates of early-stage entrepreneurial activity. Among high-income countries, Iceland (12.5%), Hong Kong (10.0%), and the United States (9.6%) show the highest levels of entrepreneurial activity. Lowest rates were found in Austria (2.4%), Puerto Rico (3.1%), and Belgium (3.2%).

The GEM results confirm that early-stage entrepreneurship is more likely to be opportunity-driven in high-income countries than in middle- and low-income countries, where entrepreneurship may in many cases be the only option for making a living. In high-income countries, wider job opportunities and social security provides more alternatives to entrepreneurship. This is also seen when evaluating entrepreneurship as a full-time or part-time occupation. For example, in Norway and Sweden, both countries with high per capita income and generous welfare systems, most early-stage entrepreneurial activity is part-time.

Both the GEM "red tape" index and the equivalent World Bank index correlate negatively with high-growth expectation entrepreneurial activity. All other things being equal, the more onerous a country's new business regulations, and the more local experts perceive these regulations to be onerous, the lower the level of ambition among a country's entrepreneurs. www.gemconsortium.org www.babson.edu

Defining Entrepreneurship

Entrepreneurship is a complex phenomenon that spans a variety of contexts. The varied definitions in entrepreneurship literature reflect this complexity. In line with its objectives, GEM takes a broad view of entrepreneurship and focuses on the role played by individuals in the entrepreneurial process. Unlike most entrepreneurship data sets that measure newer and smaller firms, GEM studies the behavior of individuals with respect to starting and managing a business. This differentiates GEM from other data sets, most of which record firm-level data on (new) firm registrations (see insert on next page). New firms are, most often, started by *individuals*, and individuals typically determine the entrepreneurial attitude of established businesses, regardless of size. Another important aspect is that, from the start of the project in 1999, GEM views entrepreneurship as a process and considers people in entrepreneurial activity in different phases, from the very early phase when business are in gestation to the established phase and possibly discontinuation of the business.

An individual entrepreneur who has succeeded in maintaining a business has gone through a process, and the characteristics of his or her actions, are a very useful way to study entrepreneurial behavior. The entrepreneurial process starts *before* the firm is operational. Someone who is just starting a venture and trying to make it in a very competitive market is an entrepreneur in spite of not having high-growth aspirations. On the other hand, a person may be an established business owner who has been in business for quite a number of years and still be innovative, competitive, and growth minded. This person is also an entrepreneur. GEM provides an umbrella under which a wide variety of entrepreneurial characteristics, such as motivations, innovativeness, competitiveness, and high-growth aspirations, can be systematically and rigorously studied.

Within this context, the GEM data collection covers the life cycle of the entrepreneurial process and looks at individuals at the point when they commit resources to start a business they expect to own themselves (nascent entrepreneurs); when they currently own and manage a new business that has paid salaries for more than three months but not more than 42 months (new business owners); and when they own and manage an established business that has been in operation for more than 42 months (established business owners). Figure 1 summarizes the entrepreneurial process and GEM's operational definitions.

Potential entrepreneur: knowledge and skills
 Nascent entrepreneur: involved in setting up a business
 Owner-manager of a young business (up to 3.5 years old)
 Owner-manager of an established business (more than 3.5 years old)
Total early-stage Entrepreneurial Activity (TEA)
Conception Firm birth Persistence

Figure 1 The Entrepreneurial Process and GEM Operational Definitions www.gemconsortium.org
www.babson.edu

The Business Birthing Event

For GEM, the payment of any wages for more than three months to anybody, including the owners, is considered to be the "birth event" of actual businesses. Thus, the distinction between nascent entrepreneurs and new business owners depends on the age of the business. Businesses that have paid salaries and wages for more than three months and less than 42 months may be considered *new*. The cut-off point of 42 months has been made on a combination of theoretical and operational grounds. The prevalence rate of nascent entrepreneurs and new business owners taken together may be viewed as an indicator of early-stage entrepreneurial activity in a country. It represents dynamic new firm activity; even if a fair share of nascent entrepreneurs do not succeed in getting the business started, their actions may have an effect on the economy since they can put pressure on incumbent firms to perform better.

Business owners who have paid salaries and wages for more than 42 months are classified as "established business owners." Their businesses have survived the liability of newness. High rates of established business ownership may indeed indicate positive conditions for firm survival. However, this is not necessarily the case. If a country exhibits high degree of established entrepreneurship combined with low degree of early-stage entrepreneurial activity, this indicates a low level of dynamism in entrepreneurial activity.

In 2007 over 150,000 adults were interviewed between May and October (outside holiday seasons) with questions on their attitudes to and involvement in entrepreneurial activity in the 42 GEM nations.
www.gemconsortium.org www.babson.edu

Glossary of Main Measures and Terminology	
Measur	Description
Entrepreneurial Activity Prevalence Rates in Adult Population	
Nascent Entrepreneurship Rate	Percentage of 18-64 population who are currently a nascent entrepreneur, i.e. actively involved in setting up a business they will own or co-own; this business has not paid salaries, wages or any other payments to the owners for more than 3 months
New Business Ownership Rate	Percentage of 18-64 population who are currently a owner-manager of a new business, i.e., owning and managing a running business that has paid salaries, wages or any other payments to the owners for more than three months, but not more than 42 months
Early-Stage Entrepreneurial Activity (TEA)	Percentage of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business (as defined above)
Established Business Ownership Rate	Percentage of 18-64 population who are currently owner-manager of an established business, i.e. owning and managing a running business that has paid salaries, wages or any other payments to the owners for more than 42 months
Overall Entrepreneurial Activity Rate	Percentage of 18-64 population who are either involved in early-stage entrepreneurial activity or owner-manager of an established business (as defined above)
High Growth Expectation Early-Stage Entrepreneurial Activity (HEA)	Percentage of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business (as defined above) <i>and</i> expect to employ at least 20 employees five years from now
Business Discontinuation Rate	Percentage of 18-64 population who have, in the past 12 months, discontinued a business, either by selling, shutting down or otherwise discontinuing an owner/management relationship with the business. Note: this is NOT a measure of business failure rates.
Characteristics of Early-Stage Entrepreneurial Activity	
Impression-Driven Opportunity Entrepreneurial Activity: Relative Prevalence	Percentage of those involved in early-stage entrepreneurial activity (as defined above) who (i) claim to be driven by opportunity as opposed to finding no other option for work; and (ii) who indicate the main driver for being involved in this opportunity is being independent or increasing their income, rather than just maintaining their income
High Growth Expectation Early-Stage Entrepreneurial Activity: Relative Prevalence	Percentage of early-stage entrepreneurs (as defined above) who expect to employ at least 20 employees five years from now
New Product-Market Oriented Early-Stage Entrepreneurial Activity: Relative Prevalence	Percentage of early-stage entrepreneurs (as defined above) who indicate that their product or service is new to at least some customers and indicate that not many businesses offer the same product or service
International-Oriented Early-Stage Entrepreneurial Activity: Relative Prevalence	Percentage of early-stage entrepreneurs (as defined above) who indicate that at least 25% of their customers are from foreign countries
Entrepreneurial Perceptions	
Perceived Opportunities	Percentage of 18-64 population (individuals involved in any stage of entrepreneurial activity excluded)

The Computing Technology Industry Association

**Testimony Before the
House Committee on Small Business**

"The Role of Small Businesses in Stimulating the Economy"

By

**Marc Steiger, CEO
DLP Technologies, Inc., Cincinnati, Ohio**

Thursday, April 24, 2008

Introduction.

Good morning, Chairwoman Velázquez, Ranking Member Chabot, and distinguished members of the Committee. My name is Marc Steiger. I am appearing today as a member of Computing Technology Industry Association (CompTIA), which represents over 10,000 member companies. I also am appearing as the owner of a small business that is working to do its part to fuel the American economy.

I want to thank Chairwoman Velázquez and Members of the Committee for holding this important hearing to highlight the contribution of small businesses to the American economy. I also want to thank this Committee for its vigilant work in maintaining watch for issues that are important to small businesses, like my company, DLP Technologies. I believe that your efforts to maintain public attention - and importantly, the attention of Congress – on the needs of small businesses are vital to our economic well-being.

As this Committee certainly appreciates, small businesses are the backbone of the American economy. According to the Small Business Administration, over 99% of the 26.8 million American businesses are small businesses with fewer than 500 employees.¹ Further, small businesses:

- Employ about half of all private sector employees.
- Pay more than 45 percent of total U.S. private payroll.
- Have generated 60 to 80 percent of net new jobs annually over the last decade.
- Supplied 22.8 percent of the total value of federal prime contracts in FY 2006.
- Hire 40 percent of high tech workers (such as scientists, engineers, and computer workers).

¹ SBA Office of Advocacy estimates based on data from the U.S. Dept. of Commerce, Bureau of the Census, and U.S. Dept. of Labor, Employment and Training Administration.

Further, small innovative firms produce 13 times more patents per employee than large patenting firms, and their patents are twice as likely as large firm patents to be among the one percent most cited.²

Small businesses are a vital source of the entrepreneurship, creativity, and innovation that keeps our economy globally competitive. And as the economy stumbles, it is essential that small business be positioned to find nimble and innovative ways to keep our businesses moving.

CompTIA Overview.

I am a member of CompTIA, and I am a VAR. The typical small business does not have an IT department but relies upon the services of an important segment of the computer industry referred to as "Value Added Resellers" or VARs. VARs are small system integrators that design, install, and maintain computer systems and networks for other small businesses. An estimated 32,000 VARs, most of which are small businesses themselves, sell approximately \$43 billion dollars worth of computer hardware, software, and services annually. This means that over one third of the computer hardware sold in the U.S. today is sold by VARs.

Ms. Chairwoman, CompTIA represents the business interests of these VARs. For 25 years, CompTIA has provided research, networking, and partnering opportunities to its 10,000 mostly American member companies. And while CompTIA represents nearly every major computer hardware manufacturer and software publisher, nearly 75% its membership is comprised of American VARs - the small business component of the tech industry. So, we particularly appreciate the opportunity to testify before this Subcommittee.

As further background, in addition to representing the interests of VARs, CompTIA also works to provide global policy leadership for the IT industry through our headquarters in Chicago and our public policy offices in Washington, Brussels, Hong Kong, and Sao Paulo. Also, in the computer industry, CompTIA is well known for the non-policy-related services that it provides to advance industry growth: Standards, professional certifications, industry education, and business solutions.

DLP Technologies Overview.

² U.S. Dept. of Commerce, Bureau of the Census; Advocacy-funded research by Kathryn Kobe, 2007 (www.sba.gov/advocacy/research/rs299tot.pdf); Federal Procurement Data System: Advocacy-funded research by CHI Research, 2003 (www.sba.gov/advocacy/research/rs225tot.pdf); U.S. Dept. of Labor, Bureau of Labor Statistics, Current Population Survey; U.S. Dept. of Commerce, International Trade Administration.

First, I would like for you to know that the SBA loan program has been of great benefit to my company, and I thank you for your support of this valuable small business program. Our company just purchased a commercial condominium for office space with SBA guaranteed funds. Also, some of our emergency working capital is also backed by SBA funds. The SBA program helped us lock in a credit approval for a long enough period to build our building, made it easier for us to get approval through the SBA taking part of the credit risk, and allowed us to lock in part of our financing for 20 years, putting our business growth plan on a more stable footing.

DLP Technologies, Inc. has worked with small and medium sized businesses in the Cincinnati area for over 25 years. We work with small businesses becoming their IT support department, helping their computer users, managing their computer infrastructure, and helping the business become more efficient and effective by helping to plan their IT projects. We also work with mid-market companies on a project basis in the areas of Microsoft infrastructure, storage, virtualization, and data centers. We have about 100 small business clients in the Cincinnati area, in many diverse industries, from law firms to printers, from small manufacturers to nursing homes, from chains of opticians to chains of chili parlors, from construction firms to retailers.

DLP supports the American economy as the employer of 11 employees with a payroll of \$675,000. We pay approximately \$55,000 annually in payroll taxes, and we support our employees by providing a full program of benefits. We also support our community by paying all required fees and taxes. However, our major contribution to the economy is through the impact we have on our clients. We support their users, keep their IT equipment functioning, and help plan their IT projects to support their businesses goals.

Companies like mine play an integral role to the American economy. We implement the IT that makes both the personal and business lives of our clients better, more prosperous, enriching and productive. Over the past decade, IT has enabled unthinkable productivity gains to the American economy. During this period, small businesses in America have embraced IT wholeheartedly. The market-leveling abilities of IT mean that it has become near-universal for small businesses. Even the average ice cream vendor uses IT to transact business. Why? Small businesses now recognize that to remain competitive, they must effectively employ the latest IT tools.

Though VARs do not generally manufacture IT itself, we do innovate IT solutions for our clients. Among other things, we support their users, keep their IT equipment functioning and up-to-date, and help plan their IT projects that best foster their businesses goals. Thus, VARs perform the majority of work in wiring America with IT, helping small businesses better compete and enabling from the those companies a near-endless variety of consumer goods and services at ever-more competitive prices.

I would like to give 2 examples of the kind of impact our services can make on our clients' productivity.

Last year, we did a technology project for The Counseling Source, a provider of mental health services for the elderly located in Cincinnati, OHIO. Our client had been in business for 18 years, but due to the administrative constraints of having clinical staff return to the office for record keeping and billing purposes, they had not been able to extend their reach beyond 25 miles. Because of the project we completed for this client, they are now able to range into any Ohio county and are now able to serve 300 clients, up from 200 before the project. Also, they have increased their clinical staff by 50% while decreasing their administrative staff from 10 employees to 4. This is a prime example of how we assist our client to reduce waste and increase productivity. Their CEO tells me they will continue to grow, because they now have discovered that there is great need for their counseling services throughout Ohio.

Another example is a project we did for Thoma and Sutton Eye Care Professionals, a 22 store optical chain located in Cincinnati, Ohio. By upgrading and supporting their technology platform, we were able to improve their productivity, and allow an 8% increase in sales with no increase in personnel. We also supported their increase in size by 2 stores by allowing their management to concentrate on more important matters while we took responsibility for technology issues. Their CEO asks me to emphasize to you today that they relied on the Section 179 expensing program to make their technology investment affordable; he told me that his company would not have made the investment without the Section 179 expensing provision.

We work with 100 small business clients just like the ones I just described supporting them every day. We also work with another 15-30 larger mid-market clients with up to 1,000 employees, on productivity boosting IT projects. This is how DLP, along with all our small business VAR competitors, make a significant impact on the productivity of the American economy.

Issues of Concern to Small Technology Businesses.

Sometimes our small businesses need the assistance of government; sometimes we need government to stay out of the way. I know this Committee is well-aware of how government can help or harm. So today, I would like to mention a few issues of concern to me and other small technology businesses:

1. Health Care. The cost of health care insurance is becoming more and more out of reach for small businesses. I pay \$68,000 in annual premiums for 11 employees; this is 10% of my total employee costs. So far, I consider myself lucky, as our employees have not faced any major health issues. But what if we have a huge claim tomorrow? My costs could double or triple overnight. Why should I have a competitive advantage over another business whose only fault is that someone on their staff or family happens to get very sick? Businesses should compete on the basis of our procedures, our employee's training, our company vision, not because we were lucky with healthcare claims. Why do we have a system that incents us to employ the young versus the older? My first

thought upon hearing of an illness in an employee or their family should be that person's welfare – not how this will affect our health insurance rates. This system is not healthy, and the status quo is no longer working and needs to be changed.

So why do I offer health coverage? If I did not, my employees would leave – or I would have to increase salaries so that my employees could purchase private coverage – assuming they could find an insurance provider. The cost of health coverage for my employees is just too high, and I suspect the vast majority of the other 26 million small businesses have the same problem. We need help. For years, we have heard talk of providing some health care relief or assistance for small businesses.

Accordingly, CompTIA calls for establishment of a Small Business Health Care Coverage Task Force. We believe that solutions to the many involved issues can only be derived with the open and studied consultation of all interested parties. Further, we believe that an ongoing task force composed of small businesses, as well as all other interested concerns, could work to define the issues and achieve consensus. This would be a great step in addressing this immediate problem.

2. Health Information Technology. CompTIA also support the adoption of health information technology ("HIT") as a means to provide more efficient and less costly health care. We believe that we must take a serious look at what can and should be done to control costs and provide cost savings via adoption of health information technology. Clearly small business health plans will bring some administrative savings through pooling, but we also need to find ways to reduce the underlying costs.

However, as we want to emphasize to this committee that a "national" HIT system will not be effective unless we can assure that small medical practitioners participate. Accordingly, we support legislation that will provide needed economic and/ or tax incentive that will encourage and assist small health care providers to purchase and maintain HIT systems for their practices.

3. Small Business Expensing - Section 179. As a small business, we are especially appreciative of the work of this Committee in bringing national attention to taxation issues affecting small businesses. And, on behalf of all CompTIA members and DLP Technologies, I want to personally thank and congratulate this Committee for its work in championing the need and benefits of section 179 small business expensing. Of course, we are very appreciative of the increase to \$200,000 enacted under the recent economic stimulus legislation. As I said earlier, one of my clients specifically identified the section 179 program as allowing him to afford a \$100,000 project last year that allowed him to increase productivity 8%. And, while we are most appreciative of this one-year bump, we ask for your support in making this \$200,000 limitation a permanent part of the tax code.

4. 3% Withholding on Government Contracts. We are concerned with the impending implementation of a 3% federal income tax withholding on government payments to contractors. DLP does make product sales to Universities and some school districts. My margin on this business is about 6 to 10%. So, a 3% withholding would represent 30-50% of my gross profits, which is a huge disincentive for me to continue with this business. I believe that small businesses will be particularly hard hit by this 3% federal income tax withholding. I want to thank this Committee for its work in this area, and I congratulate your persistence in passing legislation that would delay the effective date of this provision until 2012. This was bad tax policy when it passed, and it is bad tax policy now. We all know this will be devastating for small businesses that provide services to federal, state, and local governments. So, while we are pleased with the additional year of breathing room, this provision should be repealed, not just deferred.

5. IT Security. In addition to building and maintaining a properly functioning IT infrastructure for our small business clients, we also must be vigilant and encourage our clients to be watchful concerning issues of data and cyber security. This is a never-ending battle, and we must do all we can to protect our clients. While we keep current on alerts from our software suppliers and industry advisories, we find there is no coordinated program - either public or private - that can be accessed by either me or my clients to educate and alert on current or evolving cyber security issues and threats. In many situations, security violations could be avoided if there were some coordinated effort to collect, organize, and publish such threats so that IT users – both individuals and businesses – could be educated and forewarned.

IT security is important; it is essential for my clients. It is time for us to take a serious look at what can and needs to be done - and how this Committee can assist. Accordingly, we urge this Committee to implement legislation that would create a small business cyber security task force. Such a blue-ribbon panel could bring together experts from the SBA, the Department of Homeland Security, IT industry hardware and software vendors, and small businesses to figure out how industry and the government can work together more effectively to promote cyber security among small businesses.

6. Patent Reform. Patent reform benefits all technology companies, including VARs and technology workers who are dependent upon the commercial availability of a steady stream of technology innovation to promote sales of new products and services. A streamlined patent system that improves patent quality and reduces patent litigation expense will expand the technology product pipeline so critical to the business success of VARs.

Here is a specific example where we need to reduce litigation: Under current law, even if a small business produces only a piece of a microprocessor in a PC, another company that alleges infringement may demand damages based on the value of the entire computer. This threat of artificially high damages encourages aggressive litigation tactics and

premature settlements, especially for small business owners who do not have the resources to weather a lengthy patent dispute.

The same concerns that have prompted a call for patent reform from a broad spectrum of businesses –including financial services firms, high tech, and media – are only magnified when it comes to small business owners. Small businesses rely on patents to protect their latest innovations, which are often the foundation of their company. By strengthening and clarifying the process for obtaining and enforcing patents, and ensuring fair and even-handed treatment in the courts, small business owners and inventors will again be able to focus on developing new products and remaining competitive.

7. Business Activity Taxes. As states seek to maintain or expand both their tax bases and collections, CompTIA has noted increasing attempts to tax interstate transactions. One of the basic principles in the Supreme Court treatment of this issue of the *Quill* decision³ is fairness. That is, it is principally unfair and burdensome for a state to require a business to collect sales and use taxes – when that business has no physical presence in the taxing state. Clearly, for the typical small business, this would impose a substantial burden. In addition to collecting and paying over sales taxes to multiple jurisdictions, the business would also be burdened with a multiplicity of compliance requirements.

However, while the *Quill* decision requires a *physical nexus* in situations involving sales and use taxes, this decision did not specifically address other forms of taxation. Therefore, while *physical nexus* continues to control sales and use tax collections, some states are now seeking to ignore this requirement for other forms of taxation – asserting that an “*economic nexus*” is sufficient. Under this theory, some states have attempted to tax any transaction that has an *economic nexus* to that state. This is bad tax policy which will result in unmanageable tax and compliance problems for all businesses.

Imposition of business activity taxes under the *economic nexus* theory imposes a particularly burdensome regime on the IT industry. For example, a VAR located in State A is engaged by a customer in State B to solve a software issue. The VAR has no place of business in State B and has never visited State B. But, without ever entering State B, the VAR connects to the customer’s computer via the Internet; the computer is repaired and the customer is billed for this service. Under the *economic nexus* theory, State B could assert that income earned by the VAR is subject to income and franchise taxes in State B. Also, because the VAR is a resident and is physically present in State A, State A would likewise seek to tax these earnings. It is easy to see how adoption of the *economic nexus* will usher in a burdensome and complex new multiplicity of tax regimes for all businesses. This would be most devastating for small businesses which have neither (i) the expertise to learn the taxing requirement of all states, nor (ii) the money to pay a professional to comply with multiple taxing authorities.

³ *Quill Corp. v. North Dakota*, 504 U.S. 298 (1992).

8. Needless Regulation of the Internet. More than any other single factor, the Internet has revolutionized American small business over the brief past decade. Small businesses rely on the Internet for marketing, advertising, supply chain, research, administration, communications and many other critical functions. The Internet has empowered countless small businesses to compete with large corporations and it has literally created countless new small businesses.

One of the most important reasons that the Internet has been so successful and so important to small businesses is that you in government have not needlessly regulated it. The relatively unregulated nature of the Internet has made it a magnet for creativity, investment and innovation. We believe that regulating the Internet should only be considered if every other technique –including full use of existing laws, user education, technology tools and industry best practices- have been attempted and failed. We urge the Committee to continue their policy of keeping the Internet free of needless regulations.

Conclusion.

Small businesses are the back bone of the American economy. And while we continue to provide unique goods and services to our clients, we also provide jobs to the majority of working Americans.

I certainly do appreciate your attention, as well as the honor of appearing on this panel today. We thank you for your vigilance in helping small businesses to remain competitive. I would be pleased to answer any questions you might have.

